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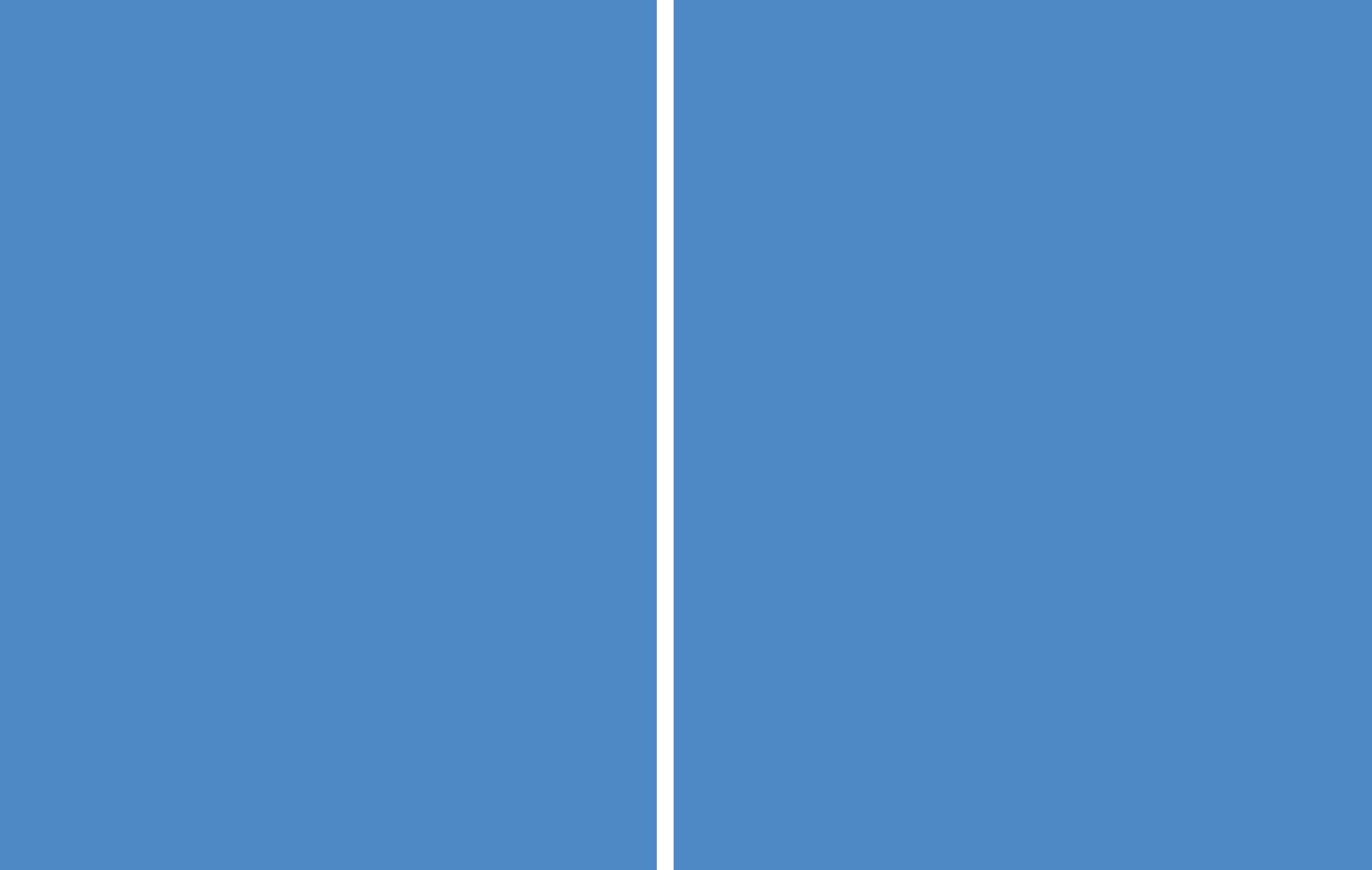


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(Incorporated in the Cayman Islands with limited liability)




CAPITAL



IMPORTANT

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

ANGELS

ANGELS TRANSPORT TECHNOLOGY COMPANY LIMITED

英君交通系統技術有限公司

(Incorporated in the Cayman Islands with limited liability)

NEW ISSUE AND OFFER FOR SALE

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

**Number of Placing Shares : 63,000,000 Shares comprising
50,000,000 New Shares and
13,000,000 Sale Shares,
subject to Over-allotment Option**

Offer Price : HK\$0.70 per Share

Nominal value : HK\$0.10 each

GEM stock code : 8112

Sponsor and Joint Lead Manager



DBS ASIA CAPITAL LIMITED

Joint Lead Manager



CSC Securities (HK) Limited

Co-Lead Manager

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

SBI E2-Capital Securities Limited

Barits Securities (Hong Kong) 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" 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 of the other documents referred to above.

22 August, 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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

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

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

EXPECTED TIMETABLE

If there is any change in the following expected timetable, the Company will issue a separate announcement.

Allotment of the New Shares and transfer of
the Sale Shares on Tuesday, 28 August, 2001^(Note 1)

Announcement on the level of indication of interest in
the Placing to be published on the GEM Website on Tuesday, 28 August, 2001^(Note 1)

Deposit of Share certificates into CCASS on ^(Note 2) Wednesday, 29 August, 2001^(Note 1)

Dealings in the Shares on GEM to commence on Thursday, 30 August, 2001^(Note 1)

Notes: –

1. All times refer to Hong Kong local time.
2. Placees of the Placing Shares will receive the Share certificates via CCASS. Share certificates are expected to be deposited into CCASS on Wednesday, 29 August, 2001 for credit to the respective CCASS participants' stock accounts designated by the Placing Underwriters or the placees (as the case may be). No temporary document or evidence of title will be issued.

Particulars of the structure of the Placing and the conditions thereof are set forth in the sections headed “Information about this prospectus and the Placing” and “Structure and conditions of the Placing” in this prospectus.

Share certificates for the Placing Shares will be issued on Wednesday, 29 August, 2001 and will become valid certificates of title at 6:00 p.m. on the day immediately preceding the day on which dealings in the Shares on GEM commence, provided that (i) the Placing has become unconditional and (ii) the right of termination as described in the section headed “Underwriting” has not been exercised.

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

The Company and the Vendors 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 Vendors, DBS Asia, the other Underwriters, the directors of any of them or any other parties involved in the Placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because 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 may be greater risk associated with any investment in companies listed on GEM than companies listed on the Main Board. 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

Introduction

The Group is principally engaged in the provision of transportation technology solutions in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways in the PRC. With its headquarters in Hong Kong, the Group conducts its business through Beijing Angels and Guangzhou Angels, both of which are wholly foreign-owned enterprises established in the PRC. Since commencement of business in 1996, the Group has developed a customised toll collection computer software, which is marketed in the PRC under the brand name of “B & A Expressway Toll Collection System”, as part of its transportation technology solutions. The toll collection system of the Group is connected with an optical fibre road network communication system and a traffic surveillance system through an operating platform supported by computer servers and workstations using Microsoft Windows as the operating environment to form an integrated system to manage the operations of highways and expressways in the PRC.

Transportation technology solutions provided by the Group

Transportation technology solutions for highways and expressways

The Group provides its transportation technology solutions on a turnkey basis in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways which mainly involve system design and implementation, staff training and system maintenance. Upon request of its customers, the Group also provides upgrading and enhancement services in respect of its transport technology solutions. For newly constructed highways or expressways, the Group normally commences the design and implementation of the relevant computer systems at the final design stage of the relevant highways or expressways. The entire design and implementation process normally takes approximately 18 months to complete. The Group also undertakes upgrading and modification projects on existing highways or expressways. Depending on the complexity of the system requirements, these projects may take several months to complete.

The Group has developed a customised toll collection system computer software for toll highways and expressways in the PRC, which is marketed in the PRC under the brand name of “B & A

SUMMARY

Expressway Toll Collection System”. The computer software incorporates various technologies and functions, such as contactless smartcard technology, electronic image verification technology and decision support analysis, to facilitate an efficient toll collection process and to improve the traffic flow by reducing the time spent on paying tolls at toll booths. As at the Latest Practicable Date, the Group had implemented the “B & A Expressway Toll Collection System” at the Harbin-Daqing Expressway, Shenzhen-Shantou Expressway, Guangzhou-Huanan Expressway and Guangzhou-Zhuhai East Expressway. On the basis of the market research conducted by the Group from time to time, the Directors believe that the “B & A Expressway Toll Collection System” is one of the most sophisticated toll collection computer software currently available in the PRC for toll highways and expressways.

Freight logistics management information system

Since January 2000, the Group has been undergoing a research and development project in respect of a freight logistics management information system, which is an Internet-ready management information system, to facilitate transmission of transportation and cargo delivery information amongst fleet operators, truck depots and cargo owners with the objective of increasing the efficiency in delivery arrangements at truck depots and transportation hubs. The system will be operated at different sites connected through the Internet or WAN on a platform supported by Microsoft Windows operating environment.

On 16 March, 2000, the Group entered into a non-binding memorandum of understanding with 廣州市新市鶴南客貨運有限公司 (Guangzhou City Xinshi Henan Passenger & Cargo Transport Company Limited*), an operator of a truck depot in Guangzhou and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement a freight logistics management information system at a truck depot in Baiyun District, Guangzhou, the PRC. Pursuant to the memorandum of understanding, the Group will be responsible for the design, development and implementation of a freight logistics management information system, while the truck depot operator will provide spaces for installation of the hardware in respect of the management information system. The Group and Guangzhou City Xinshi Henan Passenger & Cargo Transport Company Limited will be jointly responsible for the operating costs, and will share the operating revenue of the system according to a ratio to be determined by both parties.

As at the Latest Practicable Date, the Group completed the system design of the freight logistics management information system and the computer software development of the property and facilities management sub-system. However, due to the complexity of the computer software and the limited financial and human resources of the Group, the Group has yet to fully complete the development of all sub-systems comprising the computer software, namely system management, transportation system, logistics system, ordering system, information system and e-business and the integration of each of these sub-systems. With the proceeds from the New Issue, the Directors expect that the development of the computer software will be completed towards the end of 2001.

* For identification only

SUMMARY

The Group is in discussion with Guangzhou City Xinshi Henan Passenger & Cargo Transport Company Limited in relation to the detailed terms and conditions in respect of the co-operation. In this connection, the Directors expect a formal contract to be entered into by both parties towards the end of September 2001 to set forth in details the form of co-operation, the detailed terms and conditions of the implementation and the profit sharing ratio. The Directors also expect that the stage-by-stage implementation of the freight logistic management information system will commence in September 2001 and will complete in December 2001. The revenue of the Group is expected to come from a number of sources, including membership fees, transaction commission, warehouse management fee and income from other value-added services. The monthly operating and maintenance costs of the system are estimated to be approximately RMB150,000 (approximately HK\$140,000).

In addition, the Group is currently in discussion with a number of truck depot owners, manufacturers and major fleet operators in the PRC for the implementation of the freight logistics management information system at other truck depots in order to explore potential markets for the system. In this connection, the Group is currently undertaking the development of the computer software for the freight logistics management information systems that may also be implemented on other truck depots.

As at 30 June, 2001, the Group incurred approximately HK\$650,000 for the development of the freight logistics management information system.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors believe that the Group is one of the leading companies amongst a total of approximately 30 companies providing toll collection systems and traffic surveillance and optical fibre road network communication systems for highways and expressways in the PRC. The Directors believe that the Group has the following principal strengths:–

The Group is one of the first companies in the PRC to engage in the business of providing transportation technology solutions for highways and expressways in the PRC

The Directors believe that the Group is one of the first companies in the PRC to engage in the business of provision and implementation of management information systems for toll collection, traffic surveillance and optical fibre road network communication systems for highways and expressways in the PRC. As at the Latest Practicable Date, the Group had installed these systems at six expressways in the PRC. With its software development capability, the Group has developed the “B & A Expressway Toll Collection System” which has been installed at four of these six expressways in the PRC with the other two expressways using toll collection system software developed by other companies. In April 1998, the Group installed one of the first electronic image verification systems for traffic surveillance in the PRC at the Harbin-Daqing Expressway. In June 2000, the Group also installed one of the first optical fibre road network communication systems in the PRC at the Harbin-Daqing Expressway.

Research and development capability

As at the Latest Practicable Date, the Group's research and development department and the engineering department had 30 engineers. The "B & A Expressway Toll Collection System" was first developed by the Group in 1997. With the continuous developments and modifications during the last three years and on the basis of market research conducted by the Group from time to time and information and commentary published on professional journals in the PRC, the Directors believe that the "B & A Expressway Toll Collection System" is one of the most sophisticated toll collection computer software currently available in the PRC for toll highways and expressways.

Experienced management team

The Group has an experienced management team with technical expertise in the PRC transportation and information technology industry. Most of the key management members have joined the Group since the early stage of its establishment in 1996.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

The Directors believe that information technology will be widely used in the PRC, as in the case of other developed countries, such as Japan and the United States, to improve the coordination of different modes of transportation.

The Directors believe that the demand for management information systems to be used in traffic control and transportation industry in the PRC is expected to increase in the future. In anticipation of this development, the Directors intend to leverage on the Group's experience in implementing highway and expressway management information systems to expand into other applications of information technology, such as electronic payment systems and freight logistics management information systems. The Group's business objective is to become a leading transportation technology solution provider in the PRC. This business objective is to be achieved through the following implementation plans:-

Continue to penetrate the transportation technology solution market in Guangdong Province

As at the Latest Practicable Date, the Directors believe that there are 22 toll expressways in operation, eight toll expressways under construction and three expressways planned to be built in Guangdong Province, the PRC. Amongst the 33 toll expressways, 17 toll expressways were not equipped with computer systems to handle the toll collection process and the traffic management function. Most of these toll expressways are operated by the provincial government or joint venture companies established by the provincial government. The Group will seek to cooperate with the Guangdong Provincial Transportation Department, which is the supervising authority of the local transportation industry, to expand the use of its transportation technology solutions at toll expressways in Guangdong Province, the PRC.

SUMMARY

Expand the freight logistics management information system

The Directors plan to develop a freight logistics management information system which provides information transmission channels amongst major truck depots in Guangdong Province, the PRC with the objective of processing and exchanging data between the truck depots and transportation companies. The system is expected to enhance the efficiency and the coordination of cargo transportation by different modes of transportation within Guangdong Province, the PRC and between Guangdong Province and other neighbouring cities and provinces in the PRC. Upon completion of this system, the Directors plan to launch similar systems at other major cities in the PRC.

Market application software as packaged products

The Directors believe that the “B & A Expressway Toll Collection System” is one of the most sophisticated software of its kind currently available in the PRC which has been implemented at four expressways in the PRC operating an aggregate of 339 toll-gates as at the Latest Practicable Date. This computer software has been previously supplied by the Group to its customers on a project basis. As this computer software is suitable for different types of highways and expressways in the PRC, the Directors expect that there will be market demands for the “B & A Expressway Toll Collection System”. To capitalise on these additional business opportunities, the Directors plan to develop a stand-alone and standard version of the computer software comprising certain basic system functions suitable for licensing to end users.

Strengthen the research and development capability

The Directors believe that the continuous research and development activities of the Group will enable it to keep abreast of the latest market and technological developments which are critical to maintain the competitiveness of the services and the products provided by the Group. The Group will continue to enhance its capability in research and development in transportation technology solution and will seek cooperation with certain leading research institutions in the PRC.

SUMMARY

TRADING RECORD

The following summary of the combined results of the Group for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001 is extracted from the accountants' report of the Group (except for earnings/(loss) per Share), the text of which is set forth in Appendix I to this prospectus:—

	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
	HK\$'000	HK\$'000	HK\$'000
Turnover (<i>Note 1</i>)	<u>25,254</u>	<u>47,080</u>	<u>1,718</u>
Operating profit/(loss)	3,505	12,535	(2,197)
Taxation	<u>65</u>	<u>—</u>	<u>—</u>
Profit/(loss) after taxation	<u>3,440</u>	<u>12,535</u>	<u>(2,197)</u>
Minority interests	<u>(1,204)</u>	<u>(292)</u>	<u>—</u>
Combined profit/(loss) for the year/period	<u>2,236</u>	<u>12,243</u>	<u>(2,197)</u>
Dividends	<u>—</u>	<u>—</u>	<u>—</u>
Earnings/(loss) per Share (<i>Note 2</i>)	<u>1.72 cents</u>	<u>9.42 cents</u>	<u>(1.69) cents</u>

Notes:—

1. Turnover represents the total value of services rendered to customers net of PRC value-added tax and sales tax.
2. The calculation of the earnings per Share is based on the Group's combined profit/(loss) for the respective periods and 130,000,000 Shares deemed to be in issue throughout the two years ended 31 December, 2000 and the three months ended 31 March, 2001 on the assumption that the Reorganisation was completed on 1 January, 1999.

USE OF PROCEEDS FROM THE NEW ISSUE

The proceeds from the New Issue based on the Offer Price after deducting related expenses, are estimated to be approximately HK\$27 million, assuming that the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the proceeds from the New Issue, after deducting related expenses, are expected to increase to approximately HK\$33 million.

SUMMARY

The Directors presently intend to apply such proceeds as follows:–

- approximately HK\$6.5 million for expansion and modification of the transportation technology solutions provided by the Group including enhancing the functions and service modules under the “B & A Expressway Toll Collection System” and modifying it to become a standard computer software product suitable for licensing to customers;
- approximately HK\$6 million for development and implementation of the Group’s freight logistics management information system in Guangdong province, the PRC;
- approximately HK\$5 million for undertaking research and development activities in respect of the Group’s transportation technology solutions and freight logistics management information system;
- approximately HK\$1.9 million for recruiting additional staff and establishing additional offices in the PRC with the objective of expanding the business of the Group in the PRC;
- approximately HK\$2.2 million for repayment of loan due to a related company; and
- the remaining balance of approximately HK\$5.4 million as general working capital of the Group.

Should the Over-allotment Option be exercised in full, the Directors intend to use such additional proceeds as general working capital of the Group.

To the extent that the proceeds from the New Issue are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term deposit with banks and/or financial institutions in Hong Kong.

Based on the bases and assumptions set forth in the section headed “Business objective and implementation plans” in this prospectus; the Directors expect that the net proceeds from the New Issue will be fully utilised by 30 June, 2003 and will not be sufficient to finance the planned and/or intended projects of the Group for the six months ending 31 December, 2003 as described in the section headed “Business objective and implementation plans” in this prospectus, which the Directors currently estimate an additional funding of between HK\$5 million and HK\$10 million may be required subject to achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed “Business objective and implementation plans” in this prospectus. The Directors believe that, following the listing of the Shares on GEM, the Group will be able to finance such projects through bank financings or raising funds in the capital and debt markets or through a combination of these methods.

SUMMARY

In the event that any part of the business objective and the implementation plans of the Group does not materialise or proceed as planned, the Directors will evaluate such change in circumstances, if any, and may reallocate the intended funding out of the proceeds from the New Issue to other business plans and/or new projects and/or to place such funds on short-term deposit so long as the Directors consider such action to be in the best interests of the Company and the Shareholders as a whole. In such event, the Company will make a separate announcement as required by the GEM Listing Rules.

PLACING STATISTICS (Note 1)

Offer Price	HK\$0.70
Market capitalisation (Note 2).....	HK\$126,000,000
Historical pro forma diluted price/earnings multiple (Note 3)	approximately 10.07 times
Adjusted net tangible asset value per Share (Note 4).....	25.3 cents

Notes:–

1. Except where otherwise indicated, the above statistics have been prepared on the assumption that no Shares will be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted pursuant to the Share Option Scheme.
2. The calculation of market capitalisation is based on the Offer Price and 180,000,000 Shares in issue immediately after completion of the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted pursuant to the Share Option Scheme. If the Over-allotment Option is exercised in full, the market capitalisation of the Shares at the Offer Price would be approximately HK\$132,615,000.
3. The calculation of the historical pro forma diluted price/earnings multiple is based on the combined profit attributable to Shareholders for the year ended 31 December, 2000 assuming that the Company had been listed since 1 January, 2000 and a total of 180,000,000 Shares had been in issue throughout the year. The combined profit for the year ended 31 December, 2000 for the purpose of this calculation has been adjusted to take into account the interest income that would have been earned, had the net proceeds from the New Issue been received on 1 January, 2000, at a rate of 1 per cent. per annum. The historical pro forma diluted price/earnings multiple is based on the Offer Price and the historical pro forma earnings per Share for the year ended 31 December, 2000 of approximately 6.95 cents.
4. The adjusted net tangible asset value per Share has been arrived at after making the adjustments described under “Adjusted net tangible assets” in the section headed “Financial information” in this prospectus and on the basis of a total of 180,000,000 Shares in issue immediately following completion of the Placing.

SUMMARY

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

RESTRICTION ON DISPOSAL OF THE SHARES

The following is a summary of the moratorium period imposed on the Initial Management Shareholders:—

Initial Management Shareholders	Acquisition date	Approximate cost per Share	Number of Shares directly held immediately after the Placing	Percentage of direct shareholding immediately after the Placing <i>(Note 1)</i>	Moratorium period
Sebastian <i>(Note 2)</i>	16 August, 2001	HK\$0.095	81,900,000	45.5	6 months <i>(Note 4)</i>
Mitac <i>(Note 3)</i>	16 August, 2001	HK\$0.095	35,100,000	19.5	6 months <i>(Note 4)</i>

Notes:—

1. The above is based on the assumption that no Shares will be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme.
2. Sebastian is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Yan. Sebastian is an investment holding company. Mr. Yan is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Sebastian is interested. On this basis, Mr. Yan is deemed to be an Initial Management Shareholder.
3. Mitac is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Lau. Mitac is an investment holding company. Mr. Lau is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Mitac is interested. On this basis, Mr. Lau is deemed to be an Initial Management Shareholder.
4. Each of the Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company has undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that it shall not dispose of (nor enter into any agreement to dispose of) any of its respective direct or indirect interest in the Company during a period of six months from the date on which dealings in the Shares on GEM commence (the “First Six-Month Period”). Particulars of these undertakings are contained in the sections headed “Substantial, significant and Initial Management Shareholders” and “Undertakings given by the Initial Management Shareholders” in this prospectus.

Each of the Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that it shall not dispose of (nor enter into any agreement to dispose of) any of its respective direct or indirect interest in the Company which would result in the aggregate number of Shares being held by the Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company ceasing to control 35 per cent. of the voting power at any general meeting of the Company, being the threshold required of a controlling shareholder (as defined in the GEM Listing Rules), during a period of six months immediately after the First Six-Month Period (the “Second Six-Month Period”). Particulars of these undertakings are contained in the sections headed “Substantial, significant and Initial Management Shareholders” and “Undertakings given by the Initial Management Shareholders” in this prospectus.

SUMMARY

Each of Mr. Yan and Mr. Lau has undertaken with the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that he shall not dispose of his interests in Sebastian or Mitac, respectively, during the First Six-Month Period and the Second Six-Month Period.

Particulars of the waiver on the moratorium period are set forth in the section headed “Waivers from strict compliance with the GEM Listing Rules” in this prospectus.

RISK FACTORS

The Directors consider that there are certain risks involved in the business and operations of the Group, which are summarised in the section headed “Risk factors” in this prospectus. These risks can be categorised into (i) risks relating to the business of the Group; (ii) risks relating to the industry in which the Group operates; (iii) risks relating to the Shares; (iv) political and economic risks; and (v) issues to consider in relation to certain statements in this prospectus, which are summarised as follows:–

Risks relating to the business of the Group

- The Group may not be able to obtain sufficient funds to achieve its business objective for the six months ending 31 December, 2003 and any additional financing may be on terms adverse to Shareholders’ interests
- All of the Group’s income is derived from its service fee income in respect of implementation of transportation technology solutions for highways and expressways in the PRC, and all of the projects under implementation by the Group are expected to be completed by February 2002
- The Group’s income is generated on a project basis and is difficult to predict
- The Group’s fixed price contracts involve project management risks
- The Group’s freight logistics management information system is not commonly used in the PRC and the Group has not obtained any binding contracts to implement such system for its customers
- The Group is exposed to credit risks
- The Group’s business could be adversely affected if it is unable to introduce or achieve market acceptance of its new services and technology solutions
- The Group’s reliance on certain major suppliers
- The Group’s business could be adversely affected by the loss of any member of its senior management team or its inability to recruit qualified senior personnel
- The Group may not be able to implement its business objective

SUMMARY

- There is no assurance of successful implementation of the Group's business objective and the use of proceeds from the New Issue may be reallocated
- The Group may be liable for defects and errors in the technology solutions it delivers
- Research and development risks
- The Group's continued growth may strain its resources, which may adversely affect its business and results of operations
- The Group must strengthen its brand recognition in order to be competitive in its proposed software licensing business
- The Group may be unable to protect its intellectual property rights
- Defending against intellectual property infringement claims could be expensive and disruptive to the business of the Group

Risks relating to the industry in which the Group operates

- The Group may not be able to keep pace with the continuous technological changes in the industry
- Competition in the transportation technology solution industry is keen and the competitors are larger than the Group

Risks relating to the Shares

- The rights of the Shareholders are subject to the laws of the Cayman Islands which may differ from the laws of Hong Kong relating to the protection of interests of minority shareholders
- An active trading market for the Shares may not develop and their market price may be volatile
- The Shareholders' interests may be diluted
- The Directors and the Initial Management Shareholders will retain significant control after listing of the Shares on GEM

Political and economic risks

- There are political and economic risks associated with doing business in Hong Kong
- There are political and economic risks associated with doing business in the PRC

SUMMARY

- Currency conversion and exchange control

Issues to consider in relation to certain statements in this prospectus

- Certain statistics are derived from unofficial publications
- Forward-looking statements contained in this prospectus may not be accurate

DEFINITIONS

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

“Active Business Pursuit Period”	the period from 1 January, 1999 to the Latest Practicable Date
“Angels Logistics”	Angels Logistics Systems (Guangzhou) Company Limited, a company incorporated in the BVI on 10 January, 2000 and a wholly-owned subsidiary of the Company
“Angels Technology”	Angels Engineering Technology Limited (英君工程技術有限公司), a company incorporated in Hong Kong on 26 April, 2000 and a wholly-owned subsidiary of Angels Transport
“Angels Transport”	Angels Intelligent Transportation Systems Company Limited, a company incorporated in the BVI on 10 January, 2000 and a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning as defined in the GEM Listing Rules
“Beijing Angels”	北京安卓思通信技術發展有限公司(Beijing Angels Communications Technology Co., Ltd.*), a limited liability company established on 5 January, 1996 under the laws of the PRC which was converted into a wholly foreign-owned enterprise on 30 March, 2000, being a wholly-owned subsidiary of Angels Transport
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Law”	the Companies Law (Revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Angels Transport Technology Company Limited (英君交通系統技術有限公司), a company incorporated in the Cayman Islands on 7 April, 2000 with limited liability

* For identification only

DEFINITIONS

“DBS Asia”	DBS Asia Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance, the sponsor for the proposed listing of the Shares on GEM and a joint lead manager of the Placing
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for the GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM Website”	the website operated by GEM with the domain name of www.hkgem.com
“Group”	the Company and its subsidiaries or, where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or some or any of them
“Guangzhou Angels”	英君智能交通系統(廣州)有限公司(Angels ITS (Guangzhou) Co., Ltd.*), a wholly foreign-owned enterprise established on 27 April, 2000, under the laws of the PRC and a wholly-owned subsidiary of Angels Logistics
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Initial Management Shareholders”	Sebastian, Mitac, Mr. Lau and Mr. Yan
“Latest Practicable Date”	13 August, 2001, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus

* For identification only

DEFINITIONS

“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the option market) and which stock market continues to be operated in parallel with GEM
“Mitac”	Mitac International Holdings Limited, a company incorporated in the BVI on 1 February, 2000 and having its registered office at Craigmuir Chambers, P. O. Box 71, Road Town, Tortola, BVI, the entire share capital of which is beneficially owned by Mr. Lau
“Mr. Lau”	Mr. Lau, Andrew Kim, an executive Director
“Mr. Yan”	Mr. Yan, Daniel X. D., the founder and chairman of the Group
“National Trunk Highway System”	a project initiated by the Ministry of Communications of the PRC comprising 12 principal trunk highways linking major provincial cities in the PRC
“New Issue”	the issue of New Shares for subscription by professional, institutional and individual investors under the Placing
“New Shares”	the 50,000,000 new Shares to be issued at the Offer Price under the Placing, and where relevant, any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
“Offer for Sale”	the offer of the Sale Shares by the Vendors under the Placing
“Offer Price”	the offer price per Placing Share (excluding brokerage and Stock Exchange transaction levy) of HK\$0.70
“Over-allotment Option”	the option granted by the Company to the Placing Underwriters exercisable by DBS Asia to require the Company to allot and issue at the Offer Price the Over-allotment Shares, representing not more than 15 per cent. of the number of the Shares initially being offered under the Placing
“Over-allotment Shares”	up to an aggregate of 9,450,000 Placing Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option

DEFINITIONS

“Placing”	the conditional placing of the Placing Shares with professional, institutional and individual investors in Hong Kong at the Offer Price, particulars of which are described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Shares”	the New Shares and the Sale Shares
“PRC”	the People’s Republic of China, which, for the purpose of this prospectus and for geographical reference only, does not include Hong Kong, Taiwan and the Macau Special Administrative Region
“Reorganisation”	the corporate reorganisation of the Group in preparation for the listing of the Shares on GEM, particulars of which are set forth under “Corporate reorganisation” in Appendix IV to this prospectus
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Road Transportation Hub”	the 45 road transportation hubs approved for construction by the Ministry of Communications of the PRC with the objective of developing a nationwide transportation network in the PRC
“Sale Shares”	the 13,000,000 Shares being offered for sale by the Vendors at the Offer Price under the Placing
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Sebastian”	Sebastian International Holdings Limited, a company incorporated in the BVI on 2 December, 1999 and having its registered office at Craigmuir Chambers, P. O. Box 71, Road Town, Tortola, BVI, the entire share capital of which is beneficially owned by Mr. Yan
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 16 August, 2001, the principal terms of which are summarised under “Share Option Scheme” in Appendix IV to this prospectus

DEFINITIONS

“State”	the PRC government
“Stock Borrowing Agreement”	the stock borrowing agreement dated 21 August, 2001 and entered into between DBS Asia and Sebastian
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriters”	DBS Asia, CSC Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, SBI E2-Capital Securities Limited and Barits Securities (Hong Kong) Limited
“Underwriting Agreement”	the underwriting and placing agreement dated 21 August, 2001 in respect of the Placing and entered into between, among others, the Company, the Vendors, the Initial Management Shareholders, the executive Directors and the Underwriters, particulars of which are set out in the section headed “Underwriting” in this prospectus
“US”	the United States of America
“US\$”	United States dollars, the lawful currency of the US
“Vendors”	Sebastian and Mitac
“WTO”	World Trade Organisation
“sq.ft.”	square feet
“sq.m.”	square metres

Notes:–

1. Unless otherwise specified in this prospectus:–
 - (a) references in this prospectus to “subsidiary” and “holding company” have the meanings ascribed to them in section 2 of the Companies Ordinance; and
 - (b) references in this prospectus to “associated company” have the same meaning as in the Hong Kong Statement of Standard Accounting Practice Statement No. 10.
2. Except as otherwise indicated, all relevant information in this prospectus assumes that the Over-allotment Option is not exercised.
3. Amounts denominated in RMB and US\$ (other than those relating to the financials of the Group which are translated at the rates as at the relevant dates in question) have been translated, for the purpose of illustration, into Hong Kong dollars at the following exchange rates:–

HK\$1.00 = RMB1.07
US\$1.00 = HK\$7.80

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains certain definitions and other terms as they relate to the business of the Group and as they are used in this prospectus. As such, these definitions may not correspond to standard industry definitions:–

“ADM”	acronym for Add and Drop Multiplexer
“contactless smartcard”	a plastic card installed with a memory chip for storage of information, such as passwords, cardholder identification and payment information, which is able to be read by cardreader without contact
“electronic picture verification”	an advanced verification technology employing electronic picture technology
“Gbps”	gigabits per second, which is a measurement of the speed for digital transmission
“GDP”	acronym for gross domestic products
“Internet”	the combination of computer networks that use the same protocols and that are connected to each other to form a single large network through which information can be made available to users globally
“ISDN”	acronym for Integrated Services Digital Network
“Mbps”	megabits per second, which is measurement of the speed for digital transmission
“optical fibre”	a cable made of glass fibres through which signals are transmitted as pulses of light
“PABX”	acronym for Private Automatic Branch Exchange, a private phone system installed at the user’s premises that connects to a public switched telephone network and performs a variety of in-house routing and switching
“PCM”	acronym for Pulse Code Modulation, a common technique for digitizing sound
“platform”	a computing environment which allows the development and execution of computer applications

GLOSSARY OF TECHNICAL TERMS

“SDH”	acronym for Synchronous Digital Hierarchy, which is a digital telecommunication transmission technology using optical fibre for high-speed data transportation
“SOS”	urgent message or appeal for help or response
“system integration”	a process involving the design of the overall architecture of information flow and the integration of various hardware components of the system
“WAN”	acronym for Wide Area Network, which is a group of computers connected together over a relatively large geographical area by cable

RISK FACTORS

Prospective investors for the Shares should consider carefully all of the information set out in this prospectus and, in particular, the following risk factors in connection with an investment in the Company. The information in this prospectus includes forward-looking statements, which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the "Risk factors", "Management's discussion and analysis of the results of operations" in the "Financial information" and "Business" sections and elsewhere in this prospectus.

RISKS RELATING TO THE BUSINESS OF THE GROUP

The Group may not be able to obtain sufficient funds to achieve its business objective for the six months ending 31 December, 2003 and any additional financing may be on terms adverse to its Shareholders' interests

The Directors believe that the net proceeds from the New Issue will be sufficient to finance all planned and/or intended projects of the Group up to 30 June, 2003 as described in the section headed "Business objective and implementation plans" in this prospectus. However, the Directors currently estimate that an additional funding of between HK\$5 million and HK\$10 million may be required to achieve the business objective of the Group for the six months ending 31 December, 2003. There is no assurance that such additional financing will be available or on such terms as acceptable to the Group. Any additional equity financing may also be dilutive to the Shareholders. If adequate funds are not available on acceptable terms, the Group may be unable to take advantage of future opportunities or respond to competition timely, which could have a materially adverse impact on the business of the Group.

All of the Group's income is derived from its service fee income in respect of implementation of transportation technology solutions for highways and expressways in the PRC, and all of the projects under implementation by the Group are expected to be completed by February 2002

During each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, all of the Group's income was derived from service fee income in respect of implementation of transportation technology solutions for highways and expressways in the PRC. These projects vary in terms of size and service fee income, and a single project may represent a significant part of the Group's income in a particular period. Although the Group is developing other related businesses and exploring other means to diversify its business, the Directors expect that such service fee income will continue to represent a principal source of income of the Group in the future. All of the projects under implementation by the Group are expected to be completed towards February 2002. There is no assurance that the Group will be able to secure additional projects thereafter or that the Group will sustain profitability in respect of implementation of these projects in the future.

The Group's income is generated on a project basis and is difficult to predict

For each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group's turnover amounted to approximately HK\$25,254,000, approximately

RISK FACTORS

HK\$47,080,000 and approximately HK\$1,718,000, respectively. The Group's income is primarily generated from services fee income on a project basis. These projects vary in terms of size and service fee income. Therefore, a client that accounts for a significant part of the Group's income in a particular period may not generate a similar amount of income to the Group in any subsequent periods. In addition, there is no assurance that a client will retain the Group in the future for enhancement and maintenance services after completion of implementation of the relevant transportation technology solutions. For each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001 the Group's five largest customers accounted for approximately 100 per cent., 96.7 percent. and 100 per cent. of the Group's total turnover, respectively, and the Group's largest customer accounted for approximately 75.7 per cent., 58.2 per cent., and 100 per cent. of the total turnover, respectively. None of the members of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates has any interest in any of the Group's five largest customers during the period. Any decrease in the number or contract value of the Group's projects or the Group's failure to complete a project in accordance with its schedule in any period could adversely affect its profitability and its financial condition.

The Group's fixed price contracts involve project management risks

All of the transportation technology solution contracts entered into by the Group are on a fixed-price and turnkey basis, but not on a time-and-materials basis. The Group expects to continue to enter into such fixed-price contracts in the future. The Group also sub-contracts certain parts of these contracts to companies, who are third parties independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates. If the Group fails to estimate accurately the time and labour required for a project and/or to complete the project within budget, it could be exposed to cost overruns. In addition, any failure of its technology partners to deliver the necessary hardware and components in accordance with expected timetable and specifications could result in default on the part of the Group under the contracts with its customers. In such case, it could have a material impact on the business and the profitability of the Group.

The Group's freight logistics management information system is not commonly used in the PRC and the Group has not obtained any binding contracts to implement such system for its customers

The Group is engaged in research and development of freight logistics management information system, which is an Internet-ready management information system, to facilitate transmission of transportation and cargo delivery information amongst fleet operators, truck depots and cargo owners with the objective of increasing the efficiency in the delivery arrangements at truck depots and transportation hubs. However, such technology has yet to be commonly used in the PRC. There is no assurance that the research and development activities of the Group in this regard will lead to a commercial viable result and that the Group will be able to locate a sufficient number of customers to use such system. As at the Latest Practicable Date, the Group

RISK FACTORS

entered into a non-binding memorandum of understanding with 廣州市新市鶴南客貨運有限公司 (Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited*), the operator of a truck depot in Baiyun District, Guangzhou and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement such a freight logistics management information system. Nevertheless, there is no assurance that the subject matter of the memorandum of understanding will be implemented in the future. In any of these events, the business and the profitability of the Group could be adversely affected.

The Group is exposed to credit risks

The Group's service fee income derived from provision of transportation technology solutions is primarily based on scheduled payments agreed for each project. It is the Group's policy to request its customers to pay a deposit of 10 per cent. of the contract price at the time the contract is signed. A further payment of 20 per cent. of the contract price is requested when the purchase order of the relevant equipment is issued by the Group to its suppliers. Upon delivery of the equipment, another payment of 30 per cent. of contract price is required to be settled. Upon completion of installation of the system, the Group will issue an invoice to the customer for a further 30 per cent. of the contract price. The remaining 10 per cent. of the contract price will be paid following expiration of the one-year warranty period and an acceptance certificate will be issued to the Group by the customer. As at 31 March, 2001, the Group's accounts receivable accounted for approximately 11 per cent. of its current assets and represented approximately 0.30 times of its net current assets. Although provision has been made against the Group's accounts receivable to such extent as the Directors consider to be doubtful, the financial position of the Group could be adversely affected should the Group experience any unexpected delay or difficulty in collecting payment from its customers.

The Group's business could be adversely affected if it is unable to introduce and achieve market acceptance of its new services and technology solutions

The transportation technology solution industry is characterised by rapid technological changes, frequent development, enhancement of services and emerging industry standards. The introduction of services or technology solutions embodying new technologies and emerging new industry standards and practices may render existing services or technology solutions obsolete. The Group's future success will depend on its ability to (1) develop new products; (2) enhance its existing services and technology solutions; (3) develop new services and technology solutions that address the increasingly sophisticated customers; and (4) respond to technological changes and emerging new industry standards and practices on a timely and cost-effective manner.

If the Group is unable to develop and introduce new, or to enhance existing, services or technology solutions on a timely and costs-effective manner, or if the new services or technology solutions do not achieve market acceptance, the Group's business could be adversely affected. In addition, enhancement of existing services and technology solutions and development of new services and technology solutions involve significant risks. There is also no assurance that the Group will be successful in using new technologies, adapting its services and technology solutions to

* For identification only

RISK FACTORS

emerging industry standards, and developing and marketing its services, technology solution enhancements, new products and technology solutions or that the Group will not experience difficulties that could delay or prevent the successful development or marketing of these services and technology solutions, or that any such new services and technology solution enhancements will adequately meet the requirements of its customers and achieve market acceptance.

The Group's reliance on certain major suppliers

The Directors believe that the Group's reputation is built upon its ability to deliver quality services to customers, which in turn depends, to a large extent, on the supply of required equipment and components from its suppliers. For each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group's five largest suppliers accounted for approximately 80.0 per cent., approximately 45.4 per cent. and approximately 90.6 per cent. of the Group's total purchase, respectively, and the Group's largest supplier accounted for approximately 33.6 per cent., approximately 14.3 per cent. and approximately 72.8 per cent. of the total purchase, respectively. All of the Group's suppliers during the period were third parties independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates. The Group has not entered into any long-term supply contracts with any of its suppliers. As such, should any of these major suppliers cease to supply to the Group the required equipment and components and the Group be unable to source suitable alternative suppliers, the performance and the profitability of the Group could be adversely affected.

The Group's business could be adversely affected by the loss of any member of its senior management team or its inability to recruit qualified senior personnel

The success of the Group also depends on its key management and certain qualified senior personnel. The loss of services of those employees could have a materially adverse impact on the Group. The Directors believe that the Group's future success will continue to depend on its ability to attract, retain and motivate highly skilled employees. Such employees are in great demand in the market and are often subject to offers for competitive employment. There is no assurance that the Group will be able to retain its key managerial and technical employees or attract, assimilate or retain, such qualified senior personnel in the future.

The Group may not be able to implement its business objective

The Group's success in implementing its business objective depends on a number of factors, both within and outside the control of the Group. The Directors believe that the success of the Group in the future will also depend on the development of toll road systems in the PRC and the increasing acceptance of implementing computer systems for the management of such toll roads. If the Group cannot implement its growth strategy effectively, the performance and the profitability of the Group could be adversely affected.

RISK FACTORS

There is no assurance of successful implementation of the Group's business objective and the use of proceeds from the New Issue may be reallocated

The section headed "Business objective and implementation plans" in this prospectus sets out various business objective and implementation plans of the Group during the period from the Latest Practicable Date to 31 December, 2002 together with the estimated amounts of the proceeds from the New Issue to be used by the Group for such implementation plans. The business objective and implementation plans, together with the proposed allocation and use of the proceeds from the New Issue, are preliminary estimates only, subject to change, and based on the prevailing circumstances and the bases and assumptions that certain circumstances will or will not occur as well as the risks and uncertainties inherent in various stages of development of the business of the Group, which are all subject to change. These bases and assumptions are summarised in the section headed "Business objective and implementation plans" in this prospectus. There is, however, no assurance that the implementation plans of the Group will be duly implemented or that, even if they are implemented, will lead to successful achievement of the Group's business objective. In the event that any business objective and implementation plans of the Group does not materialise or proceed as planned, the Group's business and financial performance could be adversely affected. The Directors will evaluate such change in circumstances, if any, and may reallocate the intended funding of the proceeds from the New Issue to other business plans and/or to new projects and/or to place such funds on short-term deposit so long as the Directors consider such action to be in the best interests of the Group and the Shareholders as a whole.

The Group may be liable for defects or errors in the technology solutions it delivers

The transportation technology solutions developed by the Group are in most cases critical to the operations of the business of its customers. Any defects or errors in these transportation technology solutions could result in economic loss, adverse customer reaction against the Group, negative publicity, additional expenditure to ratify the problems and/or legal proceedings against the Group. Any litigation relating to such liability is expensive and time-consuming, and successful claims against the Group may result in substantial monetary liability or disruption to the business of the Group. The Group has not maintained any insurance policy against losses that may arise from such liability.

Research and development risks

An important part of the Group's growth strategy is to focus on research and development of transportation technology solutions. During each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group incurred a total of approximately HK\$1.78 million, HK\$1.63 million and HK\$0.42 million, respectively, on its research and product development activities. However, there is no assurance that the research and product development projects undertaken or to be undertaken by the Group can be completed within the anticipated time frame or will lead to commercially viable results that will enhance the business of the Group.

RISK FACTORS

The Group's continued growth may strain its resources, which may adversely affect its business and results of operations

The implementation of the growth strategy of the Group may strain its resources. To manage future growth, the Group's management must continue to improve its operational and financial systems, procedures and controls and expand, train, retain and manage its staff. If the Group's systems, procedures and controls are inadequate to support its operations, its expansion could be adversely affected, and the Group would lose its opportunity to gain a significant market share. An inability to manage growth effectively could have a materially adverse impact on the business, financial condition and profitability of the Group.

The Group must strengthen its brand name recognition in order to be competitive in its proposed software licensing business

The Directors believe that maintaining a good reputation and broadening the Group's brand name recognition is crucial to the further development of the business of the Group. This is particularly important to the Group as it plans to develop software licensing business in the PRC. If the Group's reputation is damaged or it fails to establish a strong brand name recognition relating to its products or services for whatever reasons, the Group may become less competitive or lose its market share. Promotion and enhancement of its brand name will depend largely on the Group's success in providing reliable services and transportation technology solutions to its customers. If the Group's customers perceive that the Group's services and transportation technology solutions do not meet their requirements, or if the Group fails to market its services and transportation technology solutions effectively, the Group will not be able to establish and maintain or further expand its brand name in the transportation technology solution market in the PRC, which could adversely affect the business and the profitability of the Group.

The Group may be unable to protect its intellectual property rights

The transportation technology solutions provided by the Group have not yet been patented, and its intellectual property rights only rely on a combination of non-disclosure, confidentiality and other contractual agreements with its customers and employees and the Directors, as well as trade secret or copyright laws to protect, and restrict the access to, the confidential information or technical know-how developed or acquired by the Group. Notwithstanding due implementation of these precautions, it may be possible for a third party to develop similar technology independently or to replicate or otherwise obtain the use of the Group's confidential information or technical know-how developed or acquired by the Group without authorisation. In addition, effective copyright, patent, trademark and trade secret protections may be limited or difficult to enforce in the PRC. Restricting the unauthorised use of the Group's technology in the PRC may be difficult and there is no assurance that steps taken by the Group will prevent misappropriation or infringement of the Group's technologies. In addition, litigation may be necessary to enforce the Group's intellectual property rights and to protect the Group's legitimate interest in its developed technologies, all of which could result in substantial costs and diversion of the Group's resources and management time and, as a result, could have an adverse impact on the business of the Group.

RISK FACTORS

Defending against intellectual property infringement claims could be expensive and disruptive to the business of the Group

The Directors are not aware of any alleged claims of infringement of patents, copyrights or other intellectual property rights held by third parties in respect of the services and technology solutions delivered by the Group or equipment or component provided by its suppliers for use by the Group. Thus, the Directors are not able to ascertain whether the Group will be subject to any legal proceedings and claims relating to the intellectual property of others. Intellectual property litigation is expensive and time consuming, and successful infringement claims against the Group may result in substantial monetary liability or disruption to the business of the Group.

RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

The Group may not be able to keep pace with the continuous technological changes in the industry

The markets in which the Group operates are characterised by rapid technological changes.

The Group's success will depend, in part, on its ability to respond to technological changes. If the Group is unable, for technical, financial or other reasons, to adapt in a timely manner to technological advances, it could not be able to compete against its competitors effectively. As a result, the performance and the profitability of the Group could be adversely affected.

Competition in the transportation technology solution industry is keen and the competitors are larger than the Group

Whilst the market for transportation technology solutions in the PRC is relatively new, it is already highly competitive. An increasing number of competitors, who are domestic transportation technology solutions and services providers, have introduced or developed services and technology solutions similar to those offered by the Group. The Directors believe that competition will intensify in the future and, particularly, following the anticipated accession by the PRC into the World Trade Organisation. This intense competition may limit the Group's ability to sustain its profitability or result in loss of market share. As such, the Group's competitors may be better positioned to address developments in the industry or may react more effectively to technological changes, which could adversely affect the performance and the profitability of the Group.

RISK FACTORS

RISKS RELATING TO THE SHARES

The rights of the Shareholders are subject to the laws of the Cayman Islands which may differ from the laws of Hong Kong relating to the protection of interests of minority shareholders

The Company's corporate affairs are governed by its memorandum and articles of association and by the Companies Law. The laws of the Cayman Islands relating to the protection of interests of minority shareholders and to the fiduciary responsibilities of the directors may differ from the laws of Hong Kong and the corresponding remedies available to such shareholders may differ accordingly. A summary of the laws of the Cayman Islands relating to protection of minority shareholders is set forth in Appendix III to this prospectus.

An active trading market for the Shares may not develop and their market price may be volatile

An active trading market for the Shares may not develop and the trading price for Shares may fluctuate significantly. Prior to the Placing, there has been no public market for any of the Shares. The Offer Price will be determined by negotiation between the Directors and the Underwriters. This price may not be indicative of the price at which Shares will trade following completion of the Placing. In addition, there is no assurance that an active trading market for the Shares will develop or, if it does develop, that it will be sustained following completion of the Placing, or that the market price of the Shares will not decline below the Offer Price.

The trading price of the Shares could also be subject to significant volatility in response to, among other factors:–

- investor perceptions of the Group and its business plans in the PRC;
- variations in operating results of the Group;
- announcements of new services;
- technological innovations;
- changes in pricing made by the Group, the Group's competitors or providers of alternative services;
- changes in senior management of the Group;

RISK FACTORS

- the depth and liquidity of the market for the Shares and the development of GEM as a stock market; and
- general economic and other factors.

The Shareholders' interests may be diluted

The Group may need to raise additional funds in the future to finance the expansion of or new developments relating to its existing operations or new acquisitions and the implementation of the business objective of the Group for the six months ending 31 December, 2003. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders may be reduced, the Shareholders may experience subsequent dilution of their shareholdings and/or such securities may have rights, preferences and privileges superior to those of the Shares.

The Directors and the Initial Management Shareholders will retain significant control after listing of the Shares on GEM

Upon completion of the Placing, the Directors and the Initial Management Shareholders and their respective associates will beneficially own in aggregate approximately 65 per cent. of the issued Shares (taking no account of the Shares that may be issued pursuant to exercise of the Over-allotment Option or the options which be granted under the Share Option Scheme). As a result, these persons, if they act together, will be able to exercise significant influence over certain corporate governance matters requiring Shareholders' approval, including the election of the Directors and the approval of significant corporate transactions, and will have voting powers with respect to any Shareholders' action or approval requiring a majority vote. Such concentration of ownership may also have the effect of delaying, preventing or deterring any change in control of the Group which may benefit the Shareholders.

POLITICAL AND ECONOMIC RISKS

There are political and economic risks associated with doing business in Hong Kong

The Group's headquarters are located in Hong Kong. Hong Kong is a Special Administrative Region of the PRC with her own government and legislature. Under the Basic Law of the Hong Kong Special Administrative Region, Hong Kong is entitled to a high degree of autonomy from the PRC under the principle of "one country, two systems". However, there is no assurance that Hong Kong will continue to enjoy its current level of autonomy from the PRC, and, if it does not, this could have a materially adverse effect on the Group's business, results of operations and financial condition.

RISK FACTORS

The exchange rate between US Dollar and Hong Kong Dollar has remained stable since 1983 due to the US dollar peg and currency board system that has been in effect in Hong Kong. As a result of the Asian crisis in mid-1997, interest rates in Hong Kong rose significantly, real estate values and retail sales declined and the Hong Kong economy went into recession until the second quarter of 1999. The Hong Kong Dollar was subject to currency speculation in 1998 and the Hong Kong government supported the market for the Hong Kong Dollar, both directly and indirectly through the purchase of securities listed on the Stock Exchange in 1998. There is no assurance that such economic factors will not recur or that the currency peg of the Hong Kong Dollar to the US Dollar will be maintained. Recurrence of recession in Hong Kong or the discontinuation of the currency peg could materially and adversely affect the business, financial condition and results of operations of the Group.

There are political and economic risks associated with doing business in the PRC

It was only in the early 1990's when the PRC fully adopted a market economy organised on socialist economic principles. Commencing in 1979, the State under its current leadership began to reform the economic sector, first in the agricultural areas and thereafter in cities and industrial enterprises. While one, five and ten-year state economic plans are still adopted, the State is reducing the level of direct control which it exercises over the economy through state plans and other measures, so that the market economy is playing an increasingly important role.

Currency conversion and exchange control

At present, RMB is not freely convertible to other currencies. Pursuant to 《外匯管理條例》(the “Foreign Exchange Control Regulations”) and 《外匯管理條例及結匯、售匯及付匯管理規定》(the “Regulations on the Foreign Exchange Settlement, Sale and Payments”) in the PRC, foreign investment enterprises are permitted to remit their profit or dividends in foreign currencies to overseas or repatriate such profit or dividends after converting the same from RMB to foreign currencies through banks which are authorised to engage in foreign exchange business. Foreign investment enterprises are permitted to convert RMB to foreign currencies for items in current account (including dividends payment to foreign investors) and that the control over conversion of RMB to foreign currencies for items in capital account (including such as direct investment, loan and investment in securities) is more stringent.

The operations of the Group are mainly undertaken by wholly foreign-owned enterprises established in the PRC, which are subject to the above regulations. However, there is no assurance that the Group will obtain sufficient foreign exchange for payment of dividends or other settlements in foreign exchange.

With effect from 1 January, 1994, the PRC adopted a unified exchange rate system which is subject to market demand and supply. Should there be any introduction of new laws or regulations which forbid or further limit conversion of RMB to foreign currencies, the Group's operations and profitability could be adversely affected.

RISK FACTORS

ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS IN THIS PROSPECTUS

Certain statistics are derived from unofficial publications

Certain statistics in this prospectus relating to the industry in which the Group operates are derived from various unofficial publications. Such information has not been independently verified by the Directors and may not be accurate, complete and up-to-date. The Directors make no representation as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

Forward-looking statements contained in this prospectus may not 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”, “continue”, “believe” and other similar words. The Directors have made forward-looking statements with respect to the following, among other things:–

- the Group’s strategies to achieve such business objective;
- the importance and expected growth of the transportation technology solution industry;
and
- the expected growth of toll road networks in the PRC.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on assumptions regarding the Group’s present and future business strategies and the business environment in which the Group will operate in the future. Important factors that could cause the Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the loss of key personnel of the Group, changes relating to the industry in which the Group operates and changes in general economic and business conditions. Additional factors that could cause actual results, performance or achievements to differ materially include, but not limited to, those discussed above in this section. These forward-looking statements are made as of the Latest Practicable Date.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of listing of the Shares on GEM, the Company has sought waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Particulars of such waivers are described below:–

WAIVER ON THE MORATORIUM PERIOD REQUIREMENT

Following completion of the Reorganisation and the Placing but immediately prior to the listing of the Shares on GEM, the following persons will be the Initial Management Shareholders:–

Shareholders	Number of Shares directly held immediately after the Placing	Percentage of direct shareholding immediately after the Placing (Note 1)
Sebastian (Note 2)	81,900,000	45.5
Mitac (Note 3)	35,100,000	19.5

Notes:–

1. Assuming that no Shares will be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme.
2. Sebastian is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Yan. Sebastian is an investment holding company. Mr. Yan is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Sebastian is interested. On this basis, Mr. Yan is deemed to be an Initial Management Shareholder.
3. Mitac is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Lau. Mitac is an investment holding company. Mr. Lau is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Mitac is interested. On this basis, Mr. Lau is deemed to be an Initial Management Shareholder.

Pursuant to Rule 13.16 of the GEM Listing Rules, an issuer shall procure that every initial management shareholder who, immediately prior to the listing date is entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the issuer, (i) places in escrow, with an escrow agent acceptable to the Stock Exchange, its relevant securities (as defined in the GEM Listing Rules) for a period of two years from the listing date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the issuer and the Stock Exchange that, for a period of two years from the listing date, that it shall 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 of its direct or indirect interest in the relevant securities (as defined in the GEM Listing Rules) save as under certain specified circumstances set out in Rule 13.17 of the GEM Listing Rules.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

An application for a waiver has been made to the Stock Exchange to exempt each of the Initial Management Shareholders from strict compliance with the moratorium period requirement under Rule 13.16 of the GEM Listing Rules and to accept each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company giving an undertaking to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange (i) not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his or its direct or indirect interest in the Company during a period of six months commencing from the date on which dealings in the Shares on GEM commence (the “First Six-Month Period”) and (ii) to place the relevant securities in escrow with an escrow agent acceptable to the Stock Exchange during that period instead of two years from the date on which dealings in the Shares on GEM commence.

The Stock Exchange has granted a waiver to the effect that the moratorium period requirement prescribed in Rule 13.16 of the GEM Listing Rules applicable to the Initial Management Shareholders has been reduced from two years to the First Six-Month Period, provided that during a period of six months immediately after the First Six-Month Period (the “Second Six-Month Period”), the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company, must not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their direct or indirect interest in the Company which would result in the Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company ceasing to control 35 per cent. of the voting power at any general meeting of the Company. The Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company also undertake that they shall place such number of Shares in escrow with an escrow agent acceptable to the Stock Exchange during the Second Six-Month Period. Each of Mr. Yan and Mr. Lau has further undertaken with the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that he shall not dispose of his interests in Sebastian or Mitac, respectively, during the First Six-Month Period and the Second Six-Month Period.

WAIVER ON THE STOCK BORROWING AGREEMENT

In addition, Sebastian, Mr. Yan and DBS Asia entered into the Stock Borrowing Agreement pursuant to which Sebastian shall, upon request by DBS Asia, lend up to 9,450,000 Shares, representing 15 per cent. of the Shares initially available under the Placing, to DBS Asia which Shares shall be returned to Sebastian and deposited in escrow with the escrow agent not later than the third business day following the last day on which the Over-allotment Option may be exercised or the date on which the Over-allotment Option is exercised in full, whichever is the earlier. Particulars of the Stock Borrowing Agreement are set forth under “Over-allotment Option” in the section headed “Structure and conditions of the Placing” in this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

Pursuant to the joint announcement (the “Joint Announcement”) made by the Stock Exchange and the Securities and Futures Commission dated 27 July, 2001, proposed amendments to the GEM Listing Rules are being made to exclude, inter alia, any stock borrowing agreement entered into at the time of initial public offering by the initial management shareholders from the definition of “disposal” of the relevant securities (as defined in the GEM Listing Rules) by that initial management shareholders (as defined in the GEM Listing Rules) for the purpose of Rule 13.16 of the GEM Listing Rules. As such proposed amendments to the GEM Listing Rules have yet to be made, an application has been made to the Stock Exchange for a waiver to be granted to Sebastian and Mr. Yan, being two of the Initial Management Shareholders, from strict compliance with Rule 13.16 of the GEM Listing Rules in order to allow Sebastian and Mr. Yan to enter into the Stock Borrowing Agreement. The Stock Exchange has granted the waiver subject to the following conditions:–

- (1) such stock borrowing arrangement with Sebastian and Mr. Yan will only be effected by DBS Asia for settlement of over-allocation in the Placing;
- (2) the maximum number of Shares borrowed from Sebastian will be limited to the maximum number of 9,450,000 Shares which may be placed upon exercise of the Over-allotment Option; and
- (3) up to 9,450,000 Shares borrowed from Sebastian (subject to the offset arrangement as mentioned below) shall be returned to Sebastian no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full.

The stock borrowing transaction effected under the Stock Borrowing Agreement will be made in compliance with all applicable laws and regulatory requirements. No payments or any other benefits will be made to Sebastian and/or Mr. Yan by DBS Asia in relation to the stock borrowing arrangement under the Stock Borrowing Agreement. In the event that DBS Asia (acting on behalf of the Underwriters) exercises the Over-allotment Option, the Over-allotment Shares will be used to offset against the Shares owed by DBS Asia to Sebastian, if any, under the Stock Borrowing Agreement.

WAIVER ON THE SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by a resolution of the Shareholders on 16 August, 2001. The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Chapter 23 of the GEM Listing Rules in respect of the Share Option Scheme on the conditions stated below:–

- (a) the terms of the Share Option Scheme (and any other share option schemes adopted by the Company from time to time) are in accordance with the new requirements set forth in the Joint Announcement and its addendum issued on 27 July, 2001; and

WAIVERS FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

- (b) the Company will comply with the relevant statutory requirements and the GEM Listing Rules from time to time in force on a continuing basis in respect of the Share Option Scheme and any other share option schemes.

Detailed terms of the Share Option Scheme are set forth in Appendix IV to this prospectus. Share options will be granted in accordance with the general principles set out in the Joint Announcement which includes the following:–

1. the Company must define the participants and the basis of determining the eligibility of the participants under the terms of the Share Option Scheme and any other share option schemes before such share option schemes are approved by the Shareholders;
2. subject to paragraph (3) below, the total number of Shares to be issued upon exercise of outstanding options under the Share Option Scheme and all other share option schemes from time to time adopted by the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time;
3. the Company may only grant share options under the Share Option Scheme of no more than 10 per cent. of the issued share capital of the Company as at the date of the approval of the Share Option Scheme (the “Scheme Mandate Limit”). If the Company would like to grant share options above the Scheme Mandate Limit or to grant share options to a person or a group of specifically identified persons above the Scheme Mandate Limit under the Share Option Scheme, the Company will need to seek the approval of the Shareholders at general meeting and issue a circular to the Shareholders with such information from time to time required by the Stock Exchange;
4. the total number of Shares issued and to be issued upon exercise of the share options granted or to be granted to a participant under the Share Option Scheme or other share option schemes from time to time adopted by the Company (including both exercised and outstanding share options) in any 12-month period up to the date of last grant to such participant shall not be more than one per cent. of the issued share capital of the Company from time to time. Any grant of further share options above this limit shall be subject to the approval of the Shareholders at general meeting and issuance of a circular by the Company to the Shareholders with such information from time to time required by the Stock Exchange;
5. any grant of share options to a connected person (as defined in the GEM Listing Rules) or its associates must be approved by all independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the share options);
6. where share options are proposed to be granted to a substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of the independent non-executive Directors or any of their respective associates which will result in the total number of Shares issued and to be issued upon exercise of the share options granted or to be granted to such person

under the Share Option Scheme or other share option schemes from time to time adopted by the Company (including both exercised and outstanding share options) in any 12-month period up to the date of grant to such person exceeding 0.1 per cent. of the issued share capital of the Company from time to time or HK\$5 million in value in aggregate, based on the closing price of the Shares at the date of each grant, whichever is the higher, then the proposed grant must be subject to the approval of the Shareholders at general meetings taken on a poll. Apart from the connected person (as defined in the GEM Listing Rules) involved, all other connected persons (as defined in the GEM Listing Rules) of the Company must abstain from voting in such general meeting (except where any connected person (as defined in the GEM Listing Rules) intends to vote against the proposed grant and such intention of voting is stated in the circular issued thereof). A circular must be despatched to the Shareholders explaining the proposed grant, disclosing the number and terms of the share options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant;

7. any change in the terms of any share options granted to a participant who is a substantial shareholder (as defined in the GEM Listing Rules) shall be subject to the approval of the Shareholders as prescribed in paragraph (6) above; and
8. additional disclosures of the following will be made in the annual and interim reports of the Company:–
 - (a) details of share options granted to the following persons: each Director and all other participants; and
 - (b) a summary of the major terms of each share option scheme approved by the Shareholders.

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, the Securities (Stock Exchange Listing) Rules 1989 of Hong Kong (as amended) 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.

OFFER PRICE

The Placing Shares are being offered at the Offer Price, which is HK\$0.70 excluding brokerage of one per cent. and a Stock Exchange transaction levy of 0.01 per cent.

PLACING SHARES ARE FULLY UNDERWRITTEN

The Placing initially comprises 50,000,000 New Shares being offered for subscription by the Company and 13,000,000 Sale Shares being offered for sale by the Vendors, in each case, at the Offer Price. The Placing is subject to the conditions set out in the section headed “Structure and conditions of the Placing” in this prospectus. Each person subscribing for or purchasing the Placing Shares will be required to, or deemed by its subscription for or purchase of the Placing Share to, confirm that he or she or it is aware of the restrictions on the offering of the Placing Shares described in this prospectus. This prospectus is published solely in connection with the Placing.

The Placing is sponsored and managed by DBS Asia and fully underwritten by the Underwriters. The listing of the Shares on GEM is sponsored by DBS Asia. Further information on the Underwriters and the underwriting arrangement is disclosed in the section headed “Underwriting” in this prospectus.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit any public offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. This prospectus is not an offer or invitation nor is it calculated to invite or solicit offers in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

No invitation may be made directly or indirectly by or on behalf of the Company to members of the public in the Cayman Islands to subscribe for or acquire any of the Placing Shares.

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

APPLICATION FOR LISTING ON GEM

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme and the general mandate as described under “Further information about the Company” in Appendix IV to this prospectus.

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 nor proposing to seek listing of or permission to deal in the Shares on any other stock exchange.

Only Shares registered on the Company’s branch register of members in Hong Kong may be traded on GEM unless the Stock Exchange has otherwise agreed.

Pursuant of Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 20 per cent. of the issued share capital of the Company in the public hands (which term has the meaning defined in the GEM Listing Rules).

HONG KONG BRANCH REGISTER OF MEMBERS

All Shares in issue and to be issued pursuant to the Placing will be registered on the Company’s branch register of members to be maintained by Abacus Share Registrars Limited in Hong Kong. The Company’s principal register of members is maintained by Bank of Butterfield International (Cayman) Ltd.

PROFESSIONAL TAX ADVICE RECOMMENDED

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

None of the Company, the Vendors, DBS Asia, other Underwriters, their respective directors, agents and advisers and any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, or purchasing, holding, disposing of or dealings in the Placing Shares.

HONG KONG STAMP DUTY

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

STRUCTURE AND CONDITIONS OF THE PLACING

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

DIRECTORS

EXECUTIVE DIRECTORS

Name	Residential address	Nationality
Yan, Daniel X. D.	No. 76 Headland Drive Discovery Bay, Hong Kong	Chinese
Lau, Andrew Kim	Flat D, 18th Floor, Tower 1 The Belcher's 89 Pokfulam Road Hong Kong	Chinese
Zhu Quan	Room 602 Unit 1, Building 8 Chunxiu Road, Dong Cheng District Beijing, the PRC	Chinese
Shek Ying, Christine	Flat D, 18th Floor, Tower 1 The Belcher's 89 Pokfulam Road Hong Kong	Chinese

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Residential address	Nationality
Yang Xiaoping	Suite 911, Henderson Centre Jianguomen Wai Avenue Beijing, the PRC	Chinese
Zhao Ming	Room A1, 11th Floor Lockhart Building 441 Lockhart Road, Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor and Joint Lead Manager	DBS Asia Capital Limited 16th Floor, Man Yee Building 68 Des Voeux Road Central Central Hong Kong
Joint Lead Manager	CSC Securities (HK) Limited 28th Floor, COSCO Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong
Co-Lead Manager	Guotai Junan Securities (Hong Kong) Limited 27th Floor, Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Co-Managers	SBI E2-Capital Securities Limited 20th Floor, Henley Building 5 Queen's Road Central Hong Kong Barits Securities (Hong Kong) Limited Suites 3311-3315 33rd Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:–</i> Stephenson Harwood & Lo 18th Floor, Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong Lo & Lo 35th Floor, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong

PARTIES INVOLVED IN THE PLACING

As to Cayman Islands law:–

Conyers Dill & Pearman, Cayman

Zephyr House

Mary Street

George Town

Grand Cayman

Cayman Islands

British West Indies

As to PRC law:–

Zhong Lun Law Offices

12th Floor

China Merchants Onward Science & Trade Center

No 2, Donghuannanlu

Jianwai Street

Beijing 100022

The PRC

Legal advisers to the Underwriters Li & Partners
21st Floor, World Wide House
Central
Hong Kong

Auditors and reporting accountants PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Property valuer DTZ Debenham Tie Leung Limited
10th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

CORPORATE INFORMATION

Registered office	Zephyr House Mary Street George Town Grand Cayman Cayman Islands British West Indies
Head office and principal place of business in Hong Kong registered under Part XI of the Companies Ordinance	Room 2210, 22nd Floor West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Company secretaries	Hon Yin Wah, Eva, ACCA, AHKSA Codan Trust Company (Cayman) Limited* <i>* Codan Trust Company (Cayman) Limited will resign as company secretary and will be appointed as an assistant company secretary with effect from the date of listing of the Shares on GEM.</i>
Members of audit committee	Yang Xiaoping (<i>Chairman</i>) Zhao Ming
Authorised representatives (for the purpose of the GEM Listing Rules) and process agents (under Part XI of the Companies Ordinance)	Yan, Daniel X.D. Lau, Andrew Kim
Compliance officer	Yan, Daniel X.D.
Qualified accountant	Hon Yin Wah, Eva, ACCA, AHKSA
Principal bankers	The Hongkong & Shanghai Banking Corporation 1 Queen's Road Central Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House Fort Street P.O. Box 705 George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Abacus Share Registrars Limited 2401, Prince's Building Central Hong Kong

ECONOMIC AND TRANSPORTATION DEVELOPMENTS IN THE PRC

The PRC has experienced rapid economic growth in the past two decades. Its GDP increased at an average annual rate of approximately 10.1 per cent. during the period between 1991 and 2000. Such rapid economic growth increases the demand for various modes of transportation. The average annual growth rate for number of passengers in the PRC was approximately 9.0 per cent. from 1991 to 2000, whilst that for cargo volume increased at approximately 3.6 per cent. during the same period.

Transportation on roads carried the largest volume of passengers in the PRC. In 2000, it accounted for approximately 91.3 per cent. of total number of passengers. In terms of cargo transportation, road transportation accounted for approximately 78.0 per cent. of the total cargo transportation volume in the PRC in 2000.

DEVELOPMENTS OF HIGHWAYS AND EXPRESSWAYS IN THE PRC

Regulatory framework

The State Planning Commission of the PRC is responsible for the overall planning of all modes of communication and transportation in the PRC. The Ministry of Communications and its provincial counterparts are the supervisory bodies for the planning, development, construction and management of all roads in the PRC and mainly provide policy guidance on regulations, standards and specifications in road design, construction and maintenance. For major national highway projects, such as the National Trunk Highway System, the Ministry of Communications from time to time initiates and submits proposals to the State Planning Commission and the State Council for approval.

INDUSTRY OVERVIEW

Classification of roads in the PRC

Roads in the PRC can be broadly classified into two categories, i.e. vehicular highways and general roads, based on certain criteria, such as traffic volume and road service conditions. Each of these two categories of roads can be further divided into three sub-categories as set forth below:–

	Classification of roads in the PRC					
	Vehicular highways			General roads		
	Expressway	Class 1	Class 2	Class 2	Class 3	Class 4
Maximum design speed level (kilometres/hour)	120	100	80	80	60	40
Width of the road lane (metres)	2 x 7.5	2 x 7.5	9.0	9.0	7.0	3.5
Width of the foundation (metres)	26.0	24.5	12.0	12.0	8.5	6.5
Surfaces grade	Top	Top	Top/ secondary	Top/ secondary	Secondary	Medium/ low
Average daily traffic (Vehicles per day) <i>(Note)</i>	More than 25,000	10,000 to 25,000	4,500 to 7,000	2,000 to 5,000	less than 2,000	less than 200

Source: Technical Standard of Highway Engineering JTJ 01-97 issued by Ministerial Standard of the Ministry of Communications of the PRC dated 26 November, 1997.

Note: These figures are based on the Directors' estimation according to the specifications of the relevant roads.

Expressways are generally designed for use by motor vehicles (including motorcycles) and are capable of handling approximately 25,000 or more standard vehicles on each day. Expressways are generally close-ended roads with control access at each interchange and entrance. Unlike expressways, highways and other roads are generally designed for travelling at low speed with low vehicle handling capacities. In most cases, general roads have limited safety facilities.

Development of expressways in the PRC

Since the first expressway in the PRC, the Shanghai-Jiaqing expressway, was open for traffic in October 1988, the aggregate length of expressways in the PRC has increased from approximately 18 kilometres to approximately 11,605 kilometres in 1999.

Although the development of expressways in the PRC experienced growth during the past two decades, the Directors believe that the overall quality of the road network in the PRC is relatively poor, as compared with other developed countries. This is evidenced by the fact that the aggregate

INDUSTRY OVERVIEW

length of expressways at the end of 1999 represented approximately 0.86 per cent. of the total length of the PRC's road network. The table below sets forth the composition of the PRC's road network from 1996 to 1999:–

	Road network in the PRC		Total
	Expressways and Class I to IV highways	Highways below Class IV	
	<i>(kilometres)</i>	<i>(kilometres)</i>	<i>(kilometres)</i>
1996	948,068	237,721	1,185,789
1997	997,496	228,909	1,226,405
1998	1,069,243	209,231	1,278,474
1999	1,156,736	194,955	1,351,691

Source: Yearbook of China Transportation & Communications 1997, 1998 and 1999; and China Statistical Yearbook 2000.

Thus, it can be seen that the road network in the PRC is relatively under-developed. In order to keep pace with economic growth in the PRC, the Directors anticipate that the State will construct additional roads and, in particular, graded highways in the PRC. On this basis, the Directors believe that the demand for transportation management information system will increase.

Future plans for road network in the PRC

In order to support the continued economic growth, the Ministry of Communications of the PRC has planned to complete an inter-provincial road network, which is expected to consist mainly of roads of vehicular highway standard and known as the National Trunk Highway System. The entire system is expected to connect Beijing with all provincial cities in the PRC with an existing population of more than 1,000,000 people and cities in the PRC with an existing population of more than 500,000 people. Accordingly, the National Trunk Highway System is expected to connect approximately 200 PRC cities and cover approximately 50 per cent. of the total population of the PRC. It is also expected that, upon completion of the entire National Trunk Highway System, a total of 12 principal trunk highway measuring approximately 35,000 km will have been added to the PRC road network.

Of the national trunk highways, priority will be given to the construction of the four major highways set out below:–

from north to south

- from Tongjiang in Heilongjiang Province to Sanya in Hainan Province;
- from Beijing to Zhuhai in Guangdong Province; and

from east to west

- from Lianyungang in Jiangsu Province to Korgas in the Xinjiang Autonomous Region; and
- from Shanghai to Chengdu in Sichuan Province.

These roads will, upon completion, extend to a total length of approximately 14,500 km, of which approximately 4,200 km will be constructed to the expressway standard, representing approximately 29 per cent. of the total length.

In addition to the National Trunk Highway System, provincial governments in the PRC also plan to construct additional roads to satisfy the growing local transportation demand in their respective locality.

TOLL COLLECTION SYSTEMS ON HIGHWAYS AND EXPRESSWAYS IN THE PRC

The construction of highways and expressways in the PRC mainly comprises two phases: the road construction phase and the system integration phase. Road construction works mainly include the building of road surface, guardrails, drainage systems, signage, toll-gates and other infrastructural facilities. System integration works include the design, selection and installation of hardware including toll collection facilities, communication systems, traffic surveillance systems and power supply systems. In addition, system integration also involves the development of customised management information system for the management of traffic flow on the expressways.

The Directors believe that the toll collection system with its supporting software is one of the most important systems for use on toll roads. As most of the income of toll road operators come from toll, the Directors also believe that a reliable and sophisticated toll collection and management system will increase the efficiency of toll collection.

Toll collection systems in the PRC

As at the Latest Practicable Date, toll collection systems installed on most expressways in the PRC may be broadly divided into three categories: the manual collection system, the semi-auto collection system and the auto-pass collection system.

Manual collection system

The manual collection system is commonly used on open-ended highways. The toll is collected by the operator at toll booths. The toll collectors issue tickets to drivers at the entry of a highway and then collect the ticket at the exit and with cash received put into a locked cashier. In most cases, the toll collectors are divided into two shifts on each day.

As part of the toll collection control procedure, the management of the toll highways or expressways will check the amount of cash received against the tickets issued by the toll collector at the end of each shift. Any shortfall in cash is required to be made up by the toll collector. In addition, the toll road operator also maintains a record of the tickets issued at the entry toll gates and such record is then checked against the number of tickets collected at the exit toll gates so that any discrepancy can be detected.

Semi-auto toll collection system

The semi-auto toll collection system operates on a computerised network and is currently the most widely used system in the PRC. Unlike the manual system, the semi-auto toll collection system collects tolls not only according to the vehicle type, but also the distance travelled. At the entry point of the toll expressway, the driver is issued with a magnetic card on which information relating to the vehicle as well as toll station is stored. The same card is returned to the toll collector at the exit gate, at which the information saved on the card is processed by the computer and the amount of toll is based on the type of the vehicle as well as the distance travelled.

Auto-pass toll collection system

The auto-pass toll collection system is also referred to as the electronic toll collection system. Such technology supports the automated collection of payment at toll gates. The system can significantly improve the traffic flow and can be installed on roads with heavy traffic.

Problems associated with the current toll collection system

Fraud and pilferage prevention is a principal task in the design of the expressway toll collection systems in the PRC. The result of random checks has revealed that approximately 34 per cent. of the toll payment in the PRC is lost because of toll evasion. On this basis, the Directors believe that semi-auto and auto-pass toll collection systems are effective ways to prevent fraud. In addition, these technologies are expected to increase traffic flow and operational efficiency of toll road operators.

ROAD TRANSPORTATION INDUSTRY IN THE PRC

The Directors believe that the road transportation industry in the PRC is still developing, as compared with those of the developed countries, which is evidenced by the following factors: First, the transportation industry in the PRC is fragmented with no dominant truck fleet operators. Second, the communication process between cargo owners and truck fleet operators is not efficient so that cargo owners usually encounter difficulty in allocating appropriate trucks to deliver the goods. On the other hand, truck fleet operators may not be able to access to the latest information of cargo transportation without a centralised or regional information system. As a result, a large number of trucks are not loaded with their full capacities on the roads, causing significant waste of transportation capacity and inefficiency.

INDUSTRY OVERVIEW

With the objective of rectifying the situation, the Ministry of Communications of the PRC released a long-term plan in early 1990's to develop a nationwide road transportation network. Such network comprises 45 Road Transportation Hubs located at 45 major PRC cities. The objective of the plan is to increase the efficiency in transportation logistics management through the development of a nationwide integrated transportation information network within the PRC. According to such plan, six major PRC cities, namely Shenyang, Tianjing, Zhenzhou, Wuhan, Shenzhen and Guangzhou, have been chosen to commence the construction of the new network systems and implement the systems on a trial basis.

ROAD TRANSPORTATION INDUSTRY IN GUANGZHOU

In 1999, cargo handled in ports or truck depots in Guangzhou amounted to approximately 240 million tonnes, of which approximately 120 million tonnes were transported by roads. Although road transportation accounted for approximately 50 per cent. of the total cargo transportation in Guangzhou, the use of information technology in this industry sector falls behind other modes of transportation such as marine, railway and flight.

As at the Latest Practicable Date, there are approximately 400 truck depots in Guangzhou, each with a site area ranging from 10,000 sq.m. to 100,000 sq.m. Trucks accept delivery orders at these depots. There are small freight agents, who liaise between cargo owners and fleet operators, to arrange for deliveries. Due to the absence of an integrated logistics management system, the current freight arrangement is inefficient. In most cases, empty trucks may need to wait a week before being assigned a delivery order. After delivery, the trucks return unloaded which results in a waste of transportation capacity.

Since end of 1999, the Group has started to develop a centralised freight logistics management information system for all the existing truck depots in Guangzhou as well as new truck depots to be built under a plan for road transportation hubs. The Directors expect that the new system will improve the freight efficiency between Guangzhou and other major PRC cities.

FUTURE DEVELOPMENTS OF TRANSPORTATION MANAGEMENT INFORMATION SYSTEMS IN THE PRC

In the US, the total expenditure in respect of transportation management information systems during the period between 1998 and 2011 is expected to increase to approximately US\$209 billion. In Japan, such expenditure is estimated to be approximately 50 trillion yen. In 1999, the Ministry of Communications of the PRC established an ITS Research Centre and initiated a series of research projects in respect of using information technology in the transportation industry. Such project has been carried out in certain major PRC cities including Beijing, Guangzhou, Shanghai and Shenzhen. Thus, the Directors believe that the use of information technology in the transportation industry in the PRC is expected to increase. The applications of this technology include electronic communications and safety systems, toll collection systems and traffic surveillance systems. They can be used on expressways, highways, bridges and tunnels. These information and communications technologies can also be used to improve the

quality of services provided by transportation service providers such as transit agencies and truckers.

Some of the key applications of information technology in the transportation industry include the following:–

Electronic toll collection system (ETCS)

The ETCS deploys various communications and electronic technologies to support the automated collection of tolls at toll booths and other collection points. The application of these technologies will increase system efficiency, improve customer service, enhance safety, and reduce environmental impact.

Advanced traffic management system (ATMS)

The ATMS comprises a variety of different technologies to manage traffic flow more efficiently. This system gathers real-time traffic data through traffic monitoring equipment and processes the data into usable information to determine the optimum assignment of right-of-way to vehicles and pedestrians.

Public transportation system

The application of information technology in the public transportation system, improves the overall management of the public transportation system and provides the public with efficient, convenient and economical transportation.

Commercial vehicle operation system

The system is able to operate more efficiently and with better safety standards by applying various technologies such as the electronic vehicle clearing system, the safety inspection system and the emergency reporting system.

Emergency rescue information system

This system is capable of instantly detecting abnormal traffic situations and in the case of emergency, providing rescues, traffic redirections and preventing serial accidents from happening.

Freight logistics management information system

This system provides real-time traffic information and vehicle location for both the fleet operators and cargo owners. This service significantly enhances fleet operations management by helping drivers to avoid congested areas and improving the reliability and efficiency of pickups and deliveries. These benefits are particularly important for operators of intermodal and time-sensitive fleets who can use this service to make their operations more efficient and reliable. The Directors believe that freight logistics management information system is not commonly used in the PRC.

INTRODUCTION

The Group is principally engaged in the provision of transportation technology solutions in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways in the PRC. With its headquarters in Hong Kong, the Group conducts its business through Beijing Angels and Guangzhou Angels, both of which are wholly foreign-owned enterprises established in the PRC. Since commencement of business in 1996, the Group has developed a customised toll collection computer software, which is marketed in the PRC under the brand name of “B & A Expressway Toll Collection System”, as part of its transportation technology solutions. The toll collection system of the Group is connected with an optical fibre road network communication system and a traffic surveillance system through an operating platform supported by computer servers and workstations using Microsoft Windows as the operating environment to form an integrated system to manage the operations of highways and expressways in the PRC.

Transportation technology solutions provided by the Group

Transportation technology solutions for highways and expressways

The Group provides its transportation technology solutions on a turnkey basis in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways which mainly involve system design and implementation, staff training and system maintenance. Upon request of its customers, the Group also provides upgrading and enhancement services in respect of its transport technology solutions. For newly constructed highways or expressways, the Group normally commences the design and implementation of the relevant computer systems at the final design stage of the relevant highways or expressways. The entire design and implementation process normally takes approximately 18 months to complete. The Group also undertakes upgrading and modification projects on existing highways or expressways. Depending on the complexity of the system requirements, these projects may take several months to complete.

The Group has developed a customised toll collection system computer software for toll highways and expressways in the PRC, which is marketed in the PRC under the brand name of “B & A Expressway Toll Collection System”. The computer software incorporates various technologies and functions, such as contactless smartcard technology, electronic image verification technology and decision support analysis, to facilitate an efficient toll collection process and to improve the traffic flow by reducing the time spent on paying tolls at toll booths. As at the Latest Practicable Date, the Group had implemented the “B & A Expressway Toll Collection System” at the Harbin-Daqing Expressway, Shenzhen-Shantou Expressway, Guangzhou-Huanan Expressway and Guangzhou-Zhuhai East Expressway. On the basis of the market research conducted by the Group from time to time, the Directors believe that the “B & A Expressway Toll Collection System” is one of the most sophisticated toll collection computer software currently available in the PRC for toll highways and expressways.

Freight logistics management information system

Since January 2000, the Group has been undergoing a research and development project in respect of a freight logistics management information system, which is an Internet-ready management information system, to facilitate transmission of transportation and cargo delivery information amongst fleet operators, truck depots and cargo owners with the objective of increasing the efficiency in delivery arrangements at truck depots and transportation hubs. The system will be operated at different sites connected through the Internet or WAN on a platform supported by Microsoft Windows operating environment.

On 16 March, 2000, the Group entered into a non-binding memorandum of understanding with Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited, an operator of a truck depot in Guangzhou and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement a freight logistics management information system at a truck depot in Baiyun District, Guangzhou, the PRC. Pursuant to the memorandum of understanding, the Group will be responsible for the design, development and implementation of a freight logistics management information system, while the truck depot operator will provide spaces for installation of the hardware in respect of the management information system. The Group and Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited will be jointly responsible for the operating costs, and will share the operating revenue of the system according to a ratio to be determined by both parties.

As at the Latest Practicable Date, the Group completed the system design of the freight logistics management information system and the computer software development of the property and facilities management sub-system. However, due to the complexity of the computer software and the limited financial and human resources of the Group, the Group has yet to fully complete the development of all sub-systems comprising the computer software, namely system management, transportation system, logistics system, ordering system, information system and e-business and the integration of each of these sub-systems. With the proceeds from the New Issue, the Directors expect that the development of the computer software will be completed towards the end of 2001.

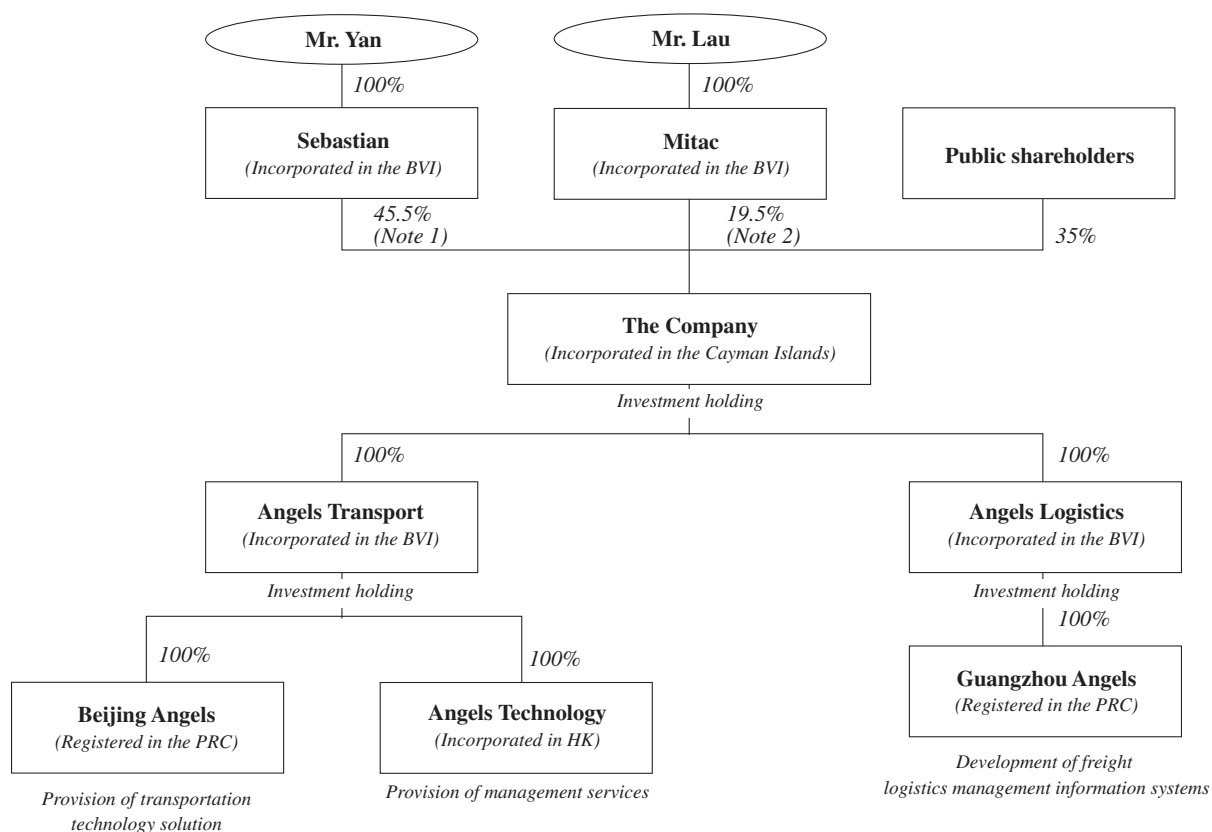
The Group is in discussion with Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited in relation to the detailed terms and conditions in respect of the co-operation. In this connection, the Directors expect a formal contract to be entered into by both parties towards the end of September 2001 to set forth in details the form of co-operation, the detailed terms and conditions of the implementation and the profit sharing ratio. The Directors also expect that the stage-by-stage implementation of the freight logistic management information system will commence in September 2001 and will complete in December 2001. The revenue of the Group is expected to come from a number of sources, including membership fees, transaction commission, warehouse management fee and income from other value-added services. The monthly operating and maintenance costs of the system are estimated to be approximately RMB150,000 (approximately HK\$140,000).

In addition, the Group is currently in discussion with a number of truck depot owners, manufacturers and major fleet operators in the PRC for the implementation of the freight logistics management information system at other truck depots in order to explore potential markets for the system. In this connection, the Group is currently undertaking the development of the computer software for the freight logistics management information systems that may also be implemented on other truck depots.

As at 30 June, 2001, the Group incurred approximately HK\$650,000 for the development of the freight logistics management information system.

GROUP STRUCTURE

During the Active Business Pursuit Period and as at the date of this prospectus, the Group has been under substantially the same management and ownership. On 16 August, 2001, the Group completed the Reorganisation, as a result of which the Company became the holding company of the Group. Details of the Reorganisation are set forth under “Group reorganisation” in Appendix IV to this prospectus. The following is the shareholding structure of the Company, the members of the Group and their respective principal activities following completion of the Placing (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):–



Notes:—

1. Sebastian is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Yan. Sebastian is an investment holding company. Mr. Yan is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Sebastian is interested. On this basis, Mr. Yan is deemed to be an Initial Management Shareholder.
2. Mitac is a company incorporated in the BVI, the entire share capital of which is held by Mr. Lau. Mitac is an investment company. Mr. Lau is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Mitac is interested. On this basis, Mr. Lau is deemed to be an Initial Management Shareholder.

HISTORY AND DEVELOPMENT (1996 – 1998)

In January 1996, Mr. Yan established Beijing Angels in Beijing with an aim to develop the business of providing management information system technology solutions in the PRC. During 1996 and 1997, Beijing Angels completed two projects for the Beijing Municipal Police Department including the provision of systems integration for its command centre and the supply of computer hardware for its legal procedure management system and subsequent maintenance services.

In late 1996, Mr. Yan anticipated that, as the transportation networks in the PRC continue to grow, there would be a growing demand for the use of information technology in the transportation system in the PRC. From 1997, Beijing Angels began to research and develop on an integrated system for transportation industry and a development team was subsequently established to focus on the development of a toll collection management information system software for expressways in the PRC. The team consisted of eight computer engineers recruited in the PRC. In August 1997, the team successfully completed the first version of “B & A Expressway Toll Collection System”.

In April 1997, the Group was appointed by 北京誠達交通新科技公司 (Beijing Chengda Transport Technology Company*) as a subcontractor of the system integration project for the Kunming-Qujing Expressway, and was primarily responsible for the implementation of a fiber optical communication system and the power supply system on the expressway. The Kunming-Qujing expressway has a total of 38 toll gates with a total length of approximately 122 kilometres. The project was commenced in April 1997 and completed in August 1997. The contract value of the project was approximately RMB2.2 million (equivalent to approximately HK\$2.1 million).

In May 1997, the Group obtained a system integration project for the Harbin-Daqing Expressway from Heilongjiang Harbin-Daqing Expressway Construction Command Office. The Directors believe that this contract was an important milestone in the development of the Group, as it was the first system integration project in which the Group acted as a lead contractor. The Heilongjiang Harbin-Daqing Expressway has a total of 27 toll gates with a total length of approximately 133 kilometres. The project was divided into two phases. In the first phase, the Group was responsible for the overall design and implementation of the management information system on the Heilongjiang Harbin-Daqing Expressway comprising a toll collection system using “B & A

* For identification only

Expressway Toll Collection System”, a communication system, a traffic surveillance system, a power supply system and a lighting system. In the second phase, the Group was responsible for the design and implementation of the telephone emergency system using optical fibres as the transmission medium. The first phase of the project commenced in May 1997 and was completed in October 1999. The second phase of the project commenced in April 2000 and was completed in June 2000. The works performed by the Group under the second phase of the project are currently under a one-year warranty provided by the Group. The contract value of the project was approximately RMB56.4 million (equivalent to approximately HK\$52.7 million).

In February 1998, the Group obtained a contract to provide system integration works for the Chuxiong-Dali Expressway, which has a length of approximately 178 km, linking between Chuxiong city and Dali city in the Yunnan province. The Group was responsible for the integration of a communication switching system for the expressway using optical fibre optics as well as integration of the power supply system of the expressway. The contract value of the project was approximately RMB4.3 million (equivalent to approximately HK\$4.0 million). The project commenced in April, 1998 and is expected to complete in September 2001.

In November 1998, the Group obtained a contract to provide and install a toll collection management information system for the Shenzhen-Shantou Expressway, which has a total length of approximately 146 km, and the Group was responsible for the implementation of the interconnected computer systems at 70 toll gates, seven stations and the control centre. The contract value of this project was approximately RMB1.95 million (equivalent to approximately HK\$1.8 million). The project commenced in November 1998 and was completed in March 2000.

STATEMENT OF ACTIVE BUSINESS PURSUITS

Financial year ended 31 December, 1999

Business development

During this period, the Group continued to implement the Harbin-Daqing, the Chuxiong-Dali and the Shenzhen-Shantou Expressway projects. Meanwhile, the Group increased the level of its marketing activities in the Guangdong province with the objective of increasing the market share of the Group’s business in the Guangdong province.

In March 1999, the Group successfully obtained a contract to provide a toll collection system integration service for the Guangzhou-Huanan Expressway, which has a length of approximately 15.6 kilometres with a total of 164 toll gates. The toll collection system implemented on this expressway uses the Group’s self-developed “B & A Expressway Toll Collection System” and is one of the largest toll collection systems for a single expressway in the PRC. The contract value of this project was approximately US\$4.86 million (approximately HK\$37.8 million). The project commenced in March 1999 and was completed in December 2000.

In August 1999, the Group obtained a contract to provide the lighting systems for Songhua River Bridge in Harbin, Heilongjiang province. The contract value of this project was

approximately RMB1.08 million (approximately HK\$1.01 million). The project commenced in August 1999 and completed in April 2000.

Since January 2000, the Group began to develop a proposal for freight logistics management information system for the road transportation hub system in Guangzhou.

Research and development

In August 1999, the Group entered into an agreement with 天津光電通信技術有限公司 (Tianjin Optical and Electrical Communication Technology Limited*) to jointly develop the emergency telephone communication signal transmission technology which uses fibre optic cable to transmit voice signals along the expressway to the control centre at a faster speed and lower costs than the traditional information transmission technology. Tianjin Optical and Electrical Communication Technology Limited is a company with limited liabilities and a third party independent of any member of the Group, their shareholders and directors and their respective associates. Tianjin Optical and Electrical Communication Technology Limited is also one of the principal manufacturers of optical fibre communication equipment, mobile communication equipment and facsimile communication equipment in the PRC. The optical fibre system developed by the Group in this project can also be used in other projects.

Financial year ended 31 December, 2000

Business development

During the period, the Group continued to implement the five projects, i.e. Harbin-Daqing Expressway project, Chuxiong-Dali Expressway project, Shenzhen – Shantou Expressway project, Guangzhou Huanan Expressway project and Songhua River Bridge project. In addition, the Group was awarded two new projects for two expressways, details of which are as follows:–

In May 2000, the Group obtained a contract to provide toll collection system integration service for Guangzhou-Zhuhai East Expressway which forms part of the Beijing-Zhuhai Expressway. In addition, the Group, together with BasicTex International Inc., (a company incorporated in the US which is principally engaged in the business of trading highway maintenance equipment and a third party independent of any member of the Group, the Directors, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates), obtained the contract to provide traffic surveillance system integration service for Guangzhou-Zhuhai East Expressway in August 1999. The Guangzhou-Zhuhai East Expressway has a total length of 56 km with a total of 78 toll gates. The contract value of the toll collection system project was approximately RMB8.5 million (approximately HK\$7.9 million). The contract value of the traffic surveillance system project was approximately RMB10 million (approximately HK\$9.3 million) which is to be shared by the Group and BasicTex International Limited at a ratio of 85 per cent. and 15 per cent., respectively. Both projects commenced in January 2000 and were completed in March 2001.

* For identification only

In March 2000, the Group completed the system design of the freight logistics management information system for the Guangzhou road transportation hub. On 16 March, 2000, the Group entered into non-binding memorandum of understanding with Guangzhou City Xinshi Henan Passenger & Cargo Transport Company Limited, an operator of a truck depot in Guangzhou and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement the logistics management information system at a truck depot in Baiyun District, Guangzhou, the PRC. Pursuant to the memorandum of understanding, the Group will be responsible for providing the design, development and the implementation of a freight logistic management information system and the truck depot owner will provide spaces for the installation of the hardware in respect of the management information system. The Group also signed a non-binding memorandum of understanding with Guangdong Chengjian Transport Infrastructure Investment Company Limited (a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates), on 5 July, 2000 to implement the freight logistics management information systems on 11 new truck depots to be built in Guangzhou, the PRC. However, due to the fact that Guangdong Chengjian Transportation Infrastructure Investment Company Limited and its parent company are currently undergoing substantial group restructuring, the Directors are uncertain that the cooperation with Guangdong Chengjian Transportation Infrastructure Investment Company Limited will be materialised.

On 17 April, 2000, the Group and Xin Yue Company Ltd., a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, signed a letter of intent pursuant to which both parties agreed to co-operated closely in the areas of expressway system integration, the “one-card-pass” project and intelligent transportation systems. As at the Latest Practicable Date, there is no active business collaboration between the two parties with that regard, except for an unsuccessful joint tendering for the Lingtong-Tongquan Expressway project.

In August 2000, the Group obtained the contract to provide toll collection system for Kunming-Yuxi Expressway which has a total length of approximately 86 km with a total of 82 total gates. The project commenced in November 2000 and is expected to complete in September 2001. The total contract value of the projects were approximately RMB15.5 million (approximately HK\$14.5 million).

Research and development

In March 2000, the Group completed its revised and upgraded version of the “B & A Expressway Toll Collection System”. The upgraded version is equipped with toll collection function using store-value smartcards. The new version also supports an account-splitting function which automatically allocates toll income to the bank accounts of different owners of the expressways in proportion to their respective ownership ratios. The Directors believe that such a technology

can be further upgraded to support the “one-card-pass” project requirement which allows vehicles to go through any expressway within the same province using the same smartcard. The total cost of developing the second version of the B & A Expressway Toll Collection System amounted to approximately RMB1.2 million (approximately HK\$1.1 million).

In March 2000, the Group and Tianjin Optical and Electrical Communication Technology Limited jointly completed the development of the optical fibre emergency telephone system. The Directors believe that such a technology was the first of its kind in the PRC. It not only provides a clear voice signal transmission capability but also significantly reduced the installation costs as compared with the use of coaxial cable.

After the financial year ended 31 December, 2000 and up to the Latest Practicable Date

Business development

During the period, the Group continued to implement the two projects, i.e. the Kunming-Yuxi Expressway project and the Guangzhou-Zhuhai East Expressway project. In addition, the Group was awarded two new projects for two expressways, details of which are as follows:–

In March 2001, the Group obtained a project from Hunan Honglilai Enterprises Limited, a wholly state-owned enterprise and a third party independent of any member of the Group, the Directors, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement a toll collection system using the “B & A Expressway Toll Collection System” for Xiangtansan Bridge in Xiangtan, Hunan province, the PRC. The contract value of this project was approximately RMB342,000 (approximately HK\$312,000). The project commenced in March 2001. As at the Latest Practicable, the installation of hardware and software relating to the “B & A Expressway Toll Collection System” was completed, and the system is currently undergoing fine-tuning. The Directors expect that the project will be completed in September 2001. The small contract value of the Xiangtansan Bridge project, as compared with the other projects, is due to the fact that, this project is to implement the Group’s toll collection system onto a bridge which has only one toll gate at one end of the bridge.

In May 2001, the Group obtained a project from Helongjiang Nian Bei Expressway Limited, a wholly state-owned enterprise and a third party independent of any member of the Group, the Directors, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to implement for Nian Bei Expressway a toll collection system using the “B & A Expressway Toll Collection System” and a traffic surveillance system. The Nian Bei Expressway has a total of 48 toll gates with a total length of approximately 290 kilometres. The contract value of this project was approximately RMB27 million (approximately HK\$25 million). The project commenced in May 2001 and is currently under system development stage. After completion of the system development, which is expected to be in September 2001, the installation of the hardware and software will begin. The Directors expect that the project will be completed in February 2002.

Research and development

In April 2001, the Group started research in co-operation with Beijing Likeming Science and Technology Development Centre, a joint stock (co-operation) enterprise and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, on the intelligent police traffic surveillance system which could be installed at major streets in the metropolitan areas of the major PRC cities to automatically identify and put on record vehicles violating traffic rules. There is no approval required for undertaking research on such intelligent police traffic surveillance system. In 關於加強公安交通管理科技工作的意見 (the “Opinions on Enforcing Science and Technology Work for Public Traffic Management”*) issued by the Ministry of Public Security on 12 April, 2000, the Ministry of Public Security emphasised on promoting the use of electronic monitoring systems. The Directors expect that there will be an increasing demand for such system in the major PRC cities and the successful development of such system will improve the Group’s revenue bases in the future.

Projects obtained by the Group

Since its inception of business in January, 1996, the Group has obtained a total of ten transportation systems integration projects, eight of which are for expressways and two for bridges. Particulars of each of these projects are summarised in the table below:–

Name of project	Role	Systems integration	Length & Number of toll gates	Date of commencement	Date of completion	Contract value (approximately)
Kunming-Qujing Expressway	Subcontractor	fiber optical communication system power supply system	122 km 38 gates	April 1997	August 1997	RMB2.22 million (HK\$2.07 million)
Harbin-Daqing Expressway	Lead-contractor	Communication system Traffic surveillance system Power supply and lighting system “B & A Expressway Toll Collection System”	133 km 27 gates	May 1997	June 2000	RMB56.4 million (HK\$52.7 million)
Chuxiong-Dali Expressway	Subcontractor	Communications switching system Power supply system	178 km 66 gates	April 1998	September 2001 [≠]	RMB4.3 million (HK\$4.02 million)
Shenzhen-Shantou Expressway	Subcontractor	“B & A Expressway Toll Collection System”	146 km 70 gates	November 1998	March 2000	RMB1.95 million (HK\$1.82 million)

* For identification only

BUSINESS

Name of project	Role	Systems integration	Length & Number of toll gates	Date of commencement	Date of completion	Contract value (approximately)
Guangzhou Huanan Expressway	Lead-contractor	“B & A Expressway Toll Collection System”	15.6 km 164 gates	March 1999	December 2000	US\$4.86 million (HK\$37.91 million)
Songhua River Bridge	Contractor	Lighting system	–	August 1999	April 2000	RMB1.08 million (HK\$1.01 million)
Guangzhou-Zhuhai East Expressway	Subcontractor	Traffic surveillance system “B & A Expressway Toll Collection System”	56 km 78 gates	January 2000	March 2001	RMB18.5 million (HK\$17.29 million)
Kunming-Yuxi Expressway	Subcontractor	Toll collection system “B & A Expressway Toll Collection System”	86 km 82 gates	November 2000	September 2001	RMB15.5 million (HK\$14.49 million)
Xiangtansan Bridge	Contractor	“B & A Expressway Toll Collection System”	1 gate	March 2001	September 2001	RMB0.34 million (HK\$0.32 million)
Nian Bei Expressway	Lead-contractor	Traffic surveillance system “B & A Expressway Toll Collection System”	290 km 48 gates	May 2001	February 2002	RMB27 million (HK\$25.23 million)

≠ *The date of completion of the Chuxiong-Dali Expressway project has been postponed from February 2001 to September 2001, due to an unexpected implementation problem of the expressway toll collection system which was installed by the lead-contractor of the project and the delay in the installation of the optical fibres by another sub-contractor. As the system integration is inter-related, the Group was not able to complete its communication switching system and the relevant power supply system on time.*

BUSINESS

Particulars of the revenues from these projects are summarised in the table below:–

Name of project	Revenue recognised during the Track Record Period	Revenue to be booked	Revenue recognised before the Track Record Period	Revenue recognised in other party's book	Value added tax and sales tax	Total	Contract value (approximately)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Kunming-Qujing Expressway		–	1,778		292	2,070	2,070
Harbin-Daqing Expressway	22,230	–	29,175		1,295	52,700	52,700
Chuxiong-Dali Expressway	2,843	600	–		577	4,020	4,020
Shenzhen Shantou Expressway	1,763	–	–		57	1,820	1,820
Guangzhou Huanan Expressway	31,866	4,000	–		2,044	37,910	37,910
Shonghua River Bridge	980	–	–		30	1,010	1,010
Guangzhou-Zhuhai East Expressway	12,652	2,450		1400 ≠	788	17,290	17,290
Kunming-Yuxi Expressway	1,718	12,000	–		772	14,490	14,490
Xiangtansan Bridge		300	–		20	320	320
Nian Bei Expressway		24,000	–		1,230	25,230	25,230

≠ This project was jointly tendered by Beijing Angels and Basicstex International Limited, a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates. As such, the contract value of the Guangzhou-Zhuhai East Expressway project was shared between the Group and Basicstex International Limited as to 85 per cent. and 15 per cent., respectively.

The lead-contractors of each of Kunming-Qujing Expressway project, Chuxiong-Dali Expressway project, Shenzhen-Shantou Expressway project, Guangzhou-Zhuhai East Expressway project and Kunming-Yuxi Expressway project are third parties independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates.

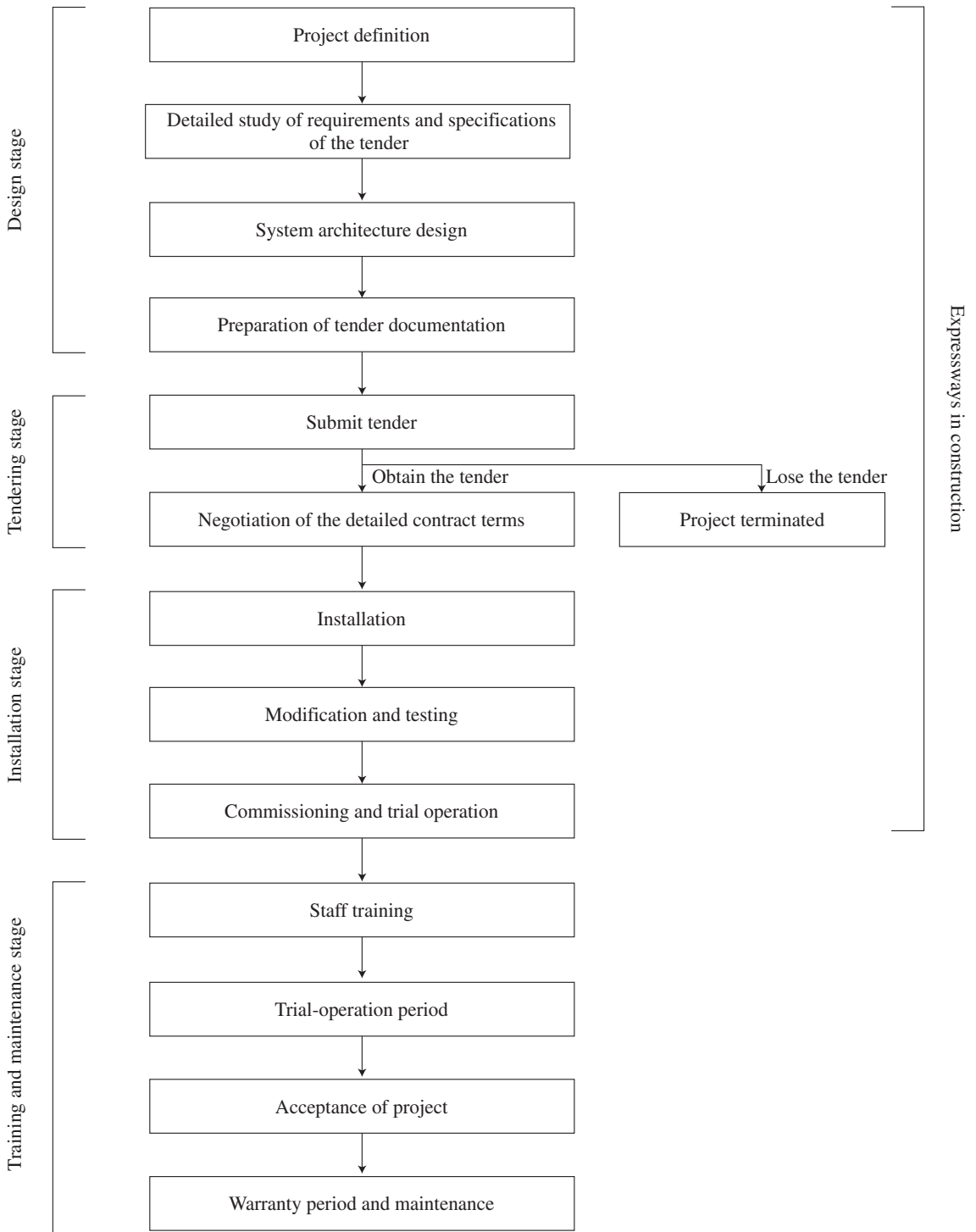
PROVISION OF TRANSPORTATION TECHNOLOGY SOLUTIONS

The construction of highways and expressways in the PRC mainly comprises two phases: the road construction phase and the system integration phase. Road construction works mainly include the building of road surface, guardrails, drainage systems, signage, toll-gates and other infrastructural facilities. System integration works include the design, selection and installation of hardware including toll collection facilities, communication systems, traffic surveillance systems and power supply systems. Each function is performed by different workstations and the central processing unit at different geographical locations connected through road network communications. In addition, system integration also involves the development of customised management information system for the management of traffic flow on the highways and expressways, and the Group is responsible for development of the management information system software for the operation of highways and expressways.

Procedures for the implementation of technology solution projects

It is one of the Group's strategies to act as lead contractor in projects engaged by the Group. In some cases, the Group may subcontract part of contractual works, such subcontracting works include cable-laying, plumbing and electricity installation, to independent third party. For each of the two years ended 31 December, 2000 and three months ended 31 March, 2001, the amount of subcontracting fee represented approximately 5.7 per cent., 6.6 per cent., and nil, respectively, of the Group's total turnover for each period. To obtain a project, the Group will need to submit a tender to the operator of the toll road, and the tendering process will normally take approximately three to six months to complete. Once the Group is informed that it has been chosen to be the lead contractor of a project, the Group will commence detailed discussions with the management of the road operators in order to obtain further information as to the

detailed specifications of the requirements. A site visit is also necessary in order to ascertain the implementation schedule and methods. The following diagram illustrates the stages in implementing a project which the Group acts as either lead-contractor or subcontractor:-



As illustrated above, a transportation technology solution project implemented by the Group typically involves four stages:–

- design stage;
- tendering stage;
- installation stage; and
- training and maintenance stage.

Design and tendering stages

As part of the marketing strategy of the Group, the senior management of the Group attends information seminar organised by prospective customers and obtains information on project specifications on which details of the system requirements are described. The Group then conducts a detailed analysis of the potential customer’s requirements and commences to produce detailed system design according to the results of such analysis. At this stage, the Group may perform prototyping, benchmarking and simulation to support its system design. The Group will then produce a set of tender documentation specifying the system architecture, as well as the hardware and software to be used. The tender documentation will be submitted to the potential customer for evaluation. Once the tender process is completed and the Group is awarded the project, the Group will enter into a contract with the customer specifying the scope of works and the aggregate contract sum to be charged by the Group. The contract sum normally covers all hardware and software sourced by the Group as well as the self-developed management information system and the services provided by the Group.

Installation stage

The Group will source the required hardware and software components from its suppliers. Such components may be sourced from different suppliers of hardware, software and networking products. Please refer to the information under “Purchases” for a description of the Group’s purchase. The principal software used on the Group’s projects is the “B & A Expressway Toll Collection System” which is developed by it and operated on Microsoft Windows operating environment.

The Group is responsible for the installation and testing of the hardware and software comprising its technology solution. Testing and trial operations will be carried out on different parts of the system. Once all components of the system are put into place, the Group would run a trial operation on the entire system in order to make sure that the entire system works properly with the designed functions.

Training and maintenance stage

After installation of the system, the Group will develop a set of user manual for the system and conduct training programmes for the customers. The training programme is part of the project, and the Group will not charge its customers separately. Once the training programme is completed, the expressway is ready for operation. There is normally a trial operation period of not less than two months after the official opening of the expressway. On-site support is also provided by the Group during this period. At the end of the trial-operation period, the customer will be required to issue an acceptance report to the Group indicating the satisfactory deployment of the system. Generally speaking, a warranty period of one year will be granted by the Group to the customers immediately following the issuance of an acceptance report. During the warranty period, the Group will ratify any technical problems arisen from the system defaults and will provide technical services free of charge. No expenses were incurred by the Group under any warranty given during the year ended 31 December, 1999. During the year ended 31 December, 2000, the Group incurred a total of HK\$60,000 for the services rendered under warranty in respect of the Shenzhen-Shantou Expressway project. During the three months ended 31 March, 2001, the Group incurred a total of HK\$11,000 for the services rendered under warranty in respect of the Shenzhen-Shantou Expressway project. There was no material defect with the Shenzhen – Shantou Expressway project. The HK\$11,000 for the service rendered under warranty mainly represented costs of routine repair, component costs and travelling costs. Such amounts were charged to the profit and loss account at the time they were incurred.

Payment terms

The Group charges its customer at an agreed contract sum out of which it pays its suppliers and subcontractors. In most cases, the Group will need 6 months to 18 months to complete a project depending on the complexity of the project.

It is the Group's policy to request its customers to pay a deposit of 10 per cent. of the contract price at the time the contract is signed. A further payment of 20 per cent. of the contract price is requested when the purchase order of the relevant equipment is issued by the Group to its suppliers. Upon delivery of the equipment, a payment of 30 per cent. of contract price is required to be settled. Upon completion of installation of the system, the Group will issue an invoice to the customers for a further 30 per cent. of the contract price. The remaining 10 per cent. of the contract price will be paid following expiration of the one year warranty period when an acceptance certificate is issued to the Group by the customers. All payments are made in RMB by way of cheque or bank telegraph transfer. For the year ended 31 December, 1999 the Group did not encounter any material bad debts from its customers. For the year ended 31 December, 2000, the Group's provision for doubtful debts amounted to HK\$1,500,000. During the three months ended 31 March, 2001, the Group did not encounter any material bad debts from its customers. The above payment terms apply to all the four projects currently under implementation by the Group. All of the customers are third parties independent of any member of the Group, their directors and shareholders and their respective associates.

The Group adopts a strict credit control procedure to monitor the amount of trade receivable for each project. The project manager performs a progress evaluation on each project on a monthly basis and submits a monthly project progress report to the general manager of the Group for credit control purpose. It is the Group's policy to make provisions for trade receivables which have been outstanding for more than 12 months. The Directors consider that all trade receivables of the Group are collectable.

After the warranty period, the Group normally provides after-sales services to the customer. These services may include a telephone enquiry hotline for prompt resolution of minor problems, onsite or remote systems support, emergency service, system maintenance and upgrading. The Group usually charges its customers a fixed annual fee of approximately 3 per cent. to 5 per cent. of the contract sum for these services. For the two years ended 31 December, 2000 and the three months ended 31 March, 2001, no after-sales service contracts were entered into by the Group and therefore no service income was received by the Group.

TRANSPORTATION TECHNOLOGY SOLUTIONS

Toll collection system

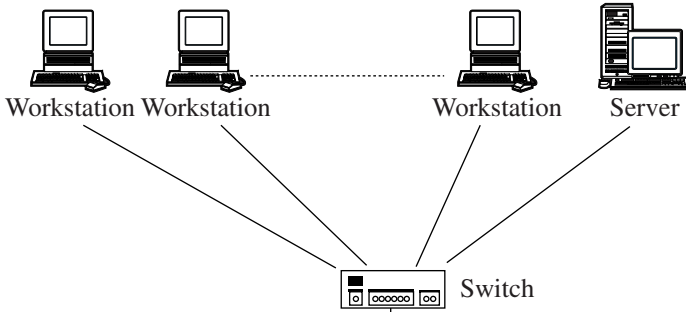
Toll collection system is the most important part of toll highways and expressways. Since all the operating revenues of the expressway are collected through toll-gates, the reliability of the system plays a significant role in the overall operation of the toll highways and expressways. The Directors consider that the Group is capable of providing solutions to avoid the fraud and pilfering in the toll collection process.

Toll highways and expressways in the PRC usually have a large number of entry and exit stations. Each station normally comprises of a number of toll-gates, one for each traffic lane. The Group's toll collection management information system is installed at each of the three operational levels of the expressways: the toll-gate, the station and the control centre. Computer systems at each level of operation are connected together through road network communications network.

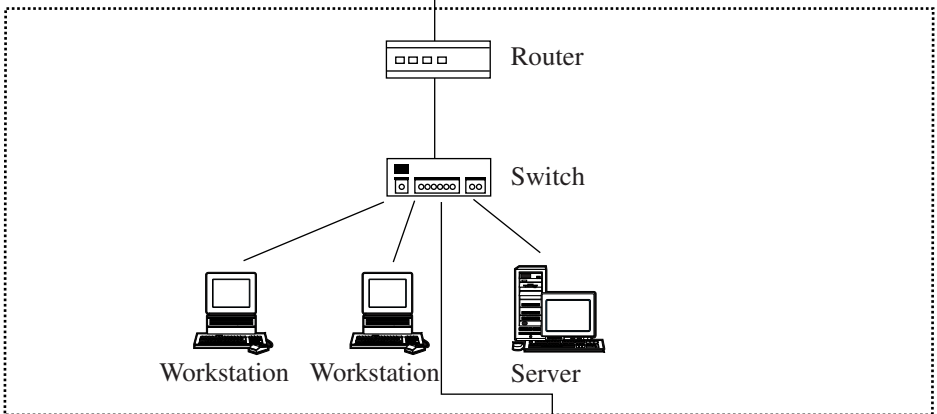
The following diagram illustrates the network structure of the Group's toll collection system:–

Three-level network structure

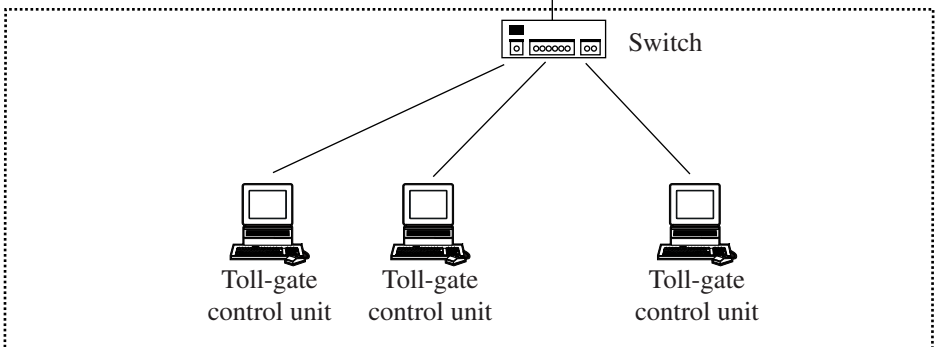
Control centre



Toll station



Toll-gates



The operating procedures of a typical toll collection system designed by the Group are as follows:–

- At the entry gate, video camera identifies the incoming vehicle and captures a picture of the vehicle.
- The toll collector inputs the vehicle type into the computer and issues to the driver a contactless smartcard on which information relating to the vehicle type, toll-gate and station codes, toll collector code and the date and time of travel is stored. All the information is subsequently transferred to computers located at the station and control center via road network communication.
- At the exit toll-gate, video camera identifies the outgoing vehicle and captures a picture of the vehicle.
- The toll collector inputs the vehicle type into the computer and collects from the driver the contactless smartcard and places it on the reading device. The computer processes the information stored on the contactless smartcard and displays the toll amount accordingly.
- If the vehicle types entered by the toll collectors at the entry and exit gates do not match or the vehicle type does not match with the same captured by computer through video camera, a warning signal will be initiated indicating an abnormal transaction which requires special attention. All abnormal transactions will be recorded for verification.

The Directors believe that its toll collection system remains one of the most sophisticated systems among the systems currently installed on expressways in the PRC. The Group's leading position in the transportation technology industry is further evidenced by the following achievements:–

- The Group is one of the first companies in the PRC to have successfully applied contactless smartcard technology into highways and expressway toll collection systems; and
- the Group has successfully applied electronic picture verification technology on expressway toll collection system in the PRC.

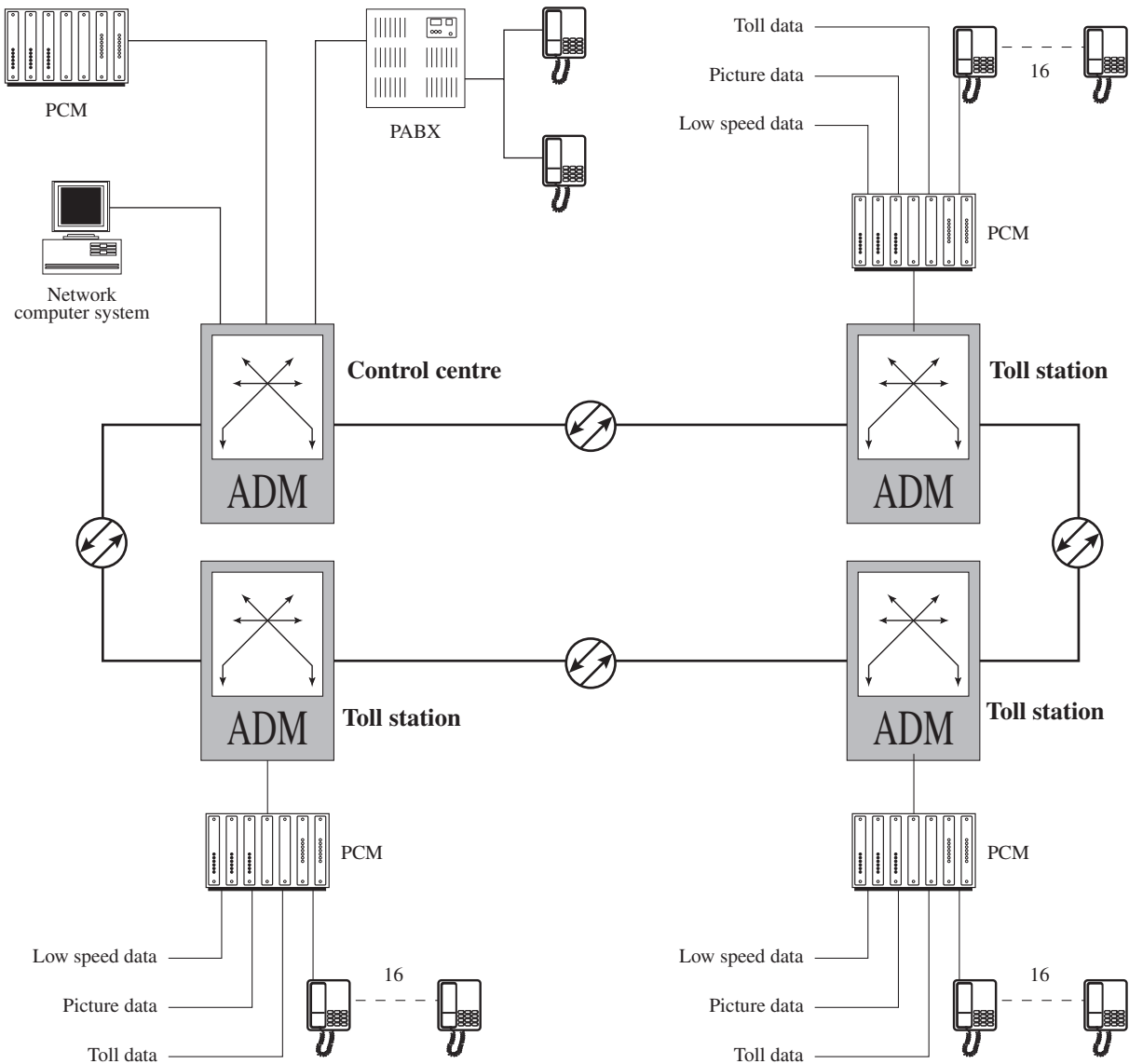
The Group's toll collection systems is able to avoid fraud by the toll collectors because information on all the vehicles passing the toll gate are recorded instantly on to the centralised computer system at the control centre. Any misconduct on the part of the toll collectors will be captured automatically by the system.

Communication system

The Group's self-developed communication system software provides a system of transmission of information among the three levels of toll collection systems and traffic monitoring systems. The communication system includes facilities such as fibre optic cables, SDH equipment, switching equipment and network management computers, which are sourced from third party suppliers. The core of the communication system is a communication network which uses optical fibres as the transmission medium and is capable of transmitting signals at speeds ranging from 51.84 Mbps to 2.5 Gbps. Signals transmitted are principally in three forms: digital data, voice and pictures.

The following diagram illustrates the design architecture of a communication system designed by the Group:-

Architecture of a communication system developed by the Group



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last three years. The Directors are of the view that the current version of the “B&A Expressway Toll Collection System” has sophisticated functions and is considered to be one of the most sophisticated of its type currently available in the PRC. Some of the functions performed by the software are as follows:–

- identifying motor vehicles using specialised cameras to capture information on vehicle registration plates at the entrance tollgate and comparing the same at the exit toll gate in order to determine the amount of toll payable;
- toll calculation based on different vehicle types and the distance travelled;
- collection of traffic statistics figures;
- built-in financial analysis models on traffic statistics including spreadsheet analysis based on vehicle types, traffic flow, distance travelled and traffic volume;
- supporting graphic demonstrations;
- toll collection information management system;
- contactless smartcard database management system;
- automatic allocation of toll-charges among multiple owners; and
- supporting multiple expressways operations.

The Directors believe that, as a result of increasing concern on effective management among highway and expressway operators in the PRC, there will be a growing demand for the Group’s “B & A Expressway Toll Collection System” in the PRC. Furthermore, the functionality of the Group’s software can be upgraded to support advanced applications in the developing transportation industry in the PRC.

PROJECTS UNDER IMPLEMENTATION

As at the Latest Practicable Date, there were four projects under implementation by the Group. Particulars of these projects are summarised in the table below:–

Projects under implementation by the Group

Name of project	Developer	Role	Systems integration	Length & number of toll gates	Date of commencement	Expected date of completion	Contract value (approximately)
Chuxiong-Dali Expressway	Beijing Chengda Transportation High Tech Company	Subcontractor	Communication switching system	178km	April 1998	September 2001	RMB4.3 million
			Power supply system	66 gates			(HK\$4.02 million)

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Name of project	Developer	Role	Systems integration	Length & number of toll gates	Date of commencement	Expected date of completion	Contract value (approximately)
Kunming-Yuxi Expressway	Yunan Kunming-Yuxi Expressway Development Company Limited	Subcontractor	"B & A Expressway Toll Collection System"	86 km 82 gates	November 2000	September 2001	RMB15.5 million (HK\$14.49 million)
Xiangtansan Bridge	Hunan Honglilai Enterprises Limited	Contractor	"B & A Expressway Toll Collection System"	1 gate	March 2001	September 2001	RMB0.34 million (HK\$0.32 million)
Nian Bei Expressway	Heilongjiang Nian Bei Expressway Limited	Lead-contractor	Traffic surveillance system "B & A Expressway Toll Collection System"	290 km 48 gates	May 2001	February 2002	RMB27 million (HK\$25.23 million)

PURCHASE

The Group sources hardware and operating system from a number of domestic suppliers as well as foreign suppliers through their distributors in the PRC. All of these suppliers are independent third parties of any members of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company and the Initial Management Shareholders and their respective associates. The following is a list of the certain major types of the products sourced by the Group and their respective principal manufacturers:—

Type of products purchased	Name of manufacturer	Name of distributor
Communication trunk, SDH equipment	Sonet, US	Shenzhen Buokang Co., Ltd. the PRC (<i>Note 1</i>)
Contactless smartcards and smartcard readers	GEMPLUS, France	Shenzhen Huashanglong Trading Co., Ltd. (<i>Note 2</i>)
Fibre optic cable	AT&T, US Wujiang City Guang Dian Factory, the PRC	Beijing Lucent Technology Cable Co., Ltd. Wujiang City Guang Dian Telecommunications Cable Factory (<i>Note 1</i>)
UPS equipment	EXIDE, US	Beijing Kangfu Weiye Technology Group
Computers	Hewlett-Packard, US	Legend Beijing Co., Ltd. (<i>Note 2</i>)
Switching equipment	Ericsson, Sweden	Beijing Ericsson Communication System Co., Ltd. (<i>Note 1, Note 2</i>)
Industrial computers	Texas Instrument, US	Beijing Stone Computer Technology Co., Ltd. (<i>Note 2</i>)
Electricity distribution panel	The Automation Research Institute of the Ministry of Metallurgy, the PRC	The Automation Research Institute of the Ministry of Metallurgy, the PRC
Routers and hubs	CISCO, 3 Com, US	Beijing Jiaxin Weiye Development Limited (<i>Note 3</i>)
Operating system – Microsoft Windows NT	Microsoft Inc.	Beijing Dongfong Laieng Information Technology Co., Ltd.

Notes:—

- 1 Being one of the Group's five largest suppliers for the year ended 31 December, 1999.
- 2 Being one of the Group's five largest suppliers for the year ended 31 December, 2000.
- 3 Being one of the Group's five largest suppliers for the three months ended 31 March, 2001.

The Group's purchases from its five largest suppliers in aggregate accounted for approximately 80.0 per cent., 45.4 per cent., and 90.6 per cent. of its total purchases for each of the two years ended 31 December, 2000 and for the three months ended 31 March, 2001, respectively. The Group's largest supplier accounted for approximately 33.6 per cent., 14.3 per cent., and 72.8 per cent. of its total purchases for each of the two years ended 31 December, 2000 and for the three months ended 31 March, 2001, respectively. None of the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates has any interest in any of the five largest suppliers of the Group for the two years ended 31 December, 2000 and for the three months ended 31 March, 2001.

Purchases were all settled in RMB by cheque or telegraphic transfer through banks for the two years ended 31 December, 2000 and for the three months ended 31 March, 2001. It is the Group's policy to require purchasers to accept settlement of the purchase price in three installments: initial payment of 10 to 60 per cent. at the time of purchase; further payment of 30 to 85 per cent. when products are delivered to the project site; and final payment of 5 to 10 per cent. after installation and testing. It is also the Group's policy not to keep excessive inventory of hardware. Thus, the Group will only purchase hardware on a "when-is-needed" basis. As at the Latest Practicable Date, the Group committed to purchase of hardware for the four projects under implementation in an amount of approximately HK\$4.3 million.

SALES AND MARKETING

The Group's sales and marketing efforts are primarily focused on highways and expressways currently under construction or existing highways and expressways which require system upgrading. Before submitting a tender document, the operators of highways and expressways usually organize information seminars at which information relating to the highways and expressways is dispatched. Attending the seminar and soliciting the potential customers are the principal marketing activities of the Group. The Group also attends various computer technology seminars and exhibitions from time to time to promote its products and to obtain information on the latest industry development.

For each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group's five largest customers accounted for approximately 100 per cent., 96.7 per cent. and 100 per cent. of the Group's total turnover, respectively, and the Group's largest customer accounted for approximately 75.7 per cent., 58.2 per cent., and 100 per cent. of the total turnover, respectively. None of the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates has any interest in any of the Group's five largest customers during each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001.

RESEARCH AND DEVELOPMENT

The Group's business objective is to become a market leader in the transportation technology industry in the PRC, which the Directors believe is a new and highly specialised industry requiring the integration of technologies from various disciplines, such as computer networking, management information systems, digital communication, electrical engineering and logistics management. The Directors also believe that, in order to maintain competitiveness in the industry, the Group must keep abreast of the latest technology and adopt an innovative approach in the development of its transport technology solutions. The Directors therefore consider that research and development is an important part of the business of the Group.

The Group's research and development department is divided into two teams: the software development team and the hardware development team.

Since early 1997, the Group's software development team has developed a series of expressway management information system softwares. A brief description of these software systems is as follows:—

Name of product	Description	Developed in
“B & A Expressway Toll Collection System” Version I	A computer software solution for expressways to perform tasks such as toll collection, vehicle images verification and traffic data collection using contactless smartcard technology, also capable of performing various management decision support analyses	1997
“B & A Expressway Toll Collection Systems” Version II	An upgraded system capable to support multiple expressway toll charges allocation using store-value smartcard	2000

The Group's hardware development team has focused on developing hardware components for highway and expressway systems.

In addition to conducting research and development activities by itself, the Group has also worked with Tianjin Optical and Electrical Communication Technology Limited (“Tianjing Optical”), a limited company engaged in the development of an advanced optical communication products in the PRC and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates, to develop optical communication technology. Pursuant to a cooperative agreement dated 25 August, 1999 entered into between Beijing Angels and Tianjin Optical in respect of a joint development of fibre optic emergency telephone system, Tianjing Optical will

be responsible for the design, production and testing of system hardware and software and Beijing Angels will be responsible for stipulating requirements for system functions and usage. In March 2000, the system was developed and subsequently installed at the Harbin-Daqing Expressway. Technical training and operation guidance has also been provided to the Group's engineers. The system was named OEPS2000 Expressway Optical Fibre Emergency Phone System, and it was branded as a jointly developed product by Beijing Angels and Tianjing Optical. On 30 September, 2000, the Group entered into an agency agreement with Tianjing Optical pursuant to which the Group agreed to act as the sole distributor of the OEPS2000 system for a term of five years which permits Beijing Angels to distribute the system product to different groups of customers including the end-users, distributors and system integrators, whilst Tianjing Optical would only be allowed to sell the OEPS2000 system to end-users. The Group would sell the various components of OEPS2000 system at an average price which is 10 per cent. below the average standard price determined by both parties. The Group would also enjoy the benefit of purchasing the OEPS2000 system for use on its own projects at an average price which is 40 per cent. below the average standard price.

For the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group's investments in research and development activities amounted to approximately HK\$1.78 million, approximately HK\$1.63 million and approximately HK\$0.42 million, respectively, representing approximately 7.0 per cent., approximately 3.5 per cent. and approximately 24.4 per cent. of its total turnover, respectively. The increase in the percentage of the Group's investments in research and development to its total turnover for the three months ended 31 March, 2001 was principally due to the decrease in the turnover for the period. The Group's research and development expenses were charged to its profit and loss accounts at the time they were incurred.

WARRANTY AND AFTER-SALES SERVICES

The Group normally provides a warranty period of 12 months for each of its projects. During the warranty period, the Group is responsible for any technical problems arisen from the systems and will provide technical services free of charge. For the year ended 31 December 1999, the Group had not incurred any warranty expenses. For the year ended 31 December, 2000 and the three months ended 31 March, 2001, warranty expenses amounted to approximately HK\$60,000 and HK\$11,000, respectively. Such expenses were charged to the Group's profit and loss accounts at time they were incurred.

The Group also provides after-sales services to its customers after completion of the projects. These services may include a telephone enquiry hotline for prompt resolution of minor problems, onsite or remote systems support, emergency service, system maintenance and upgrading. As at the Latest Practicable Date, of the five projects completed by the Group, the Kunming-Qujing Expressway, phase I of the Harbin-Daqing Expressway, Shenzhen-Shantou Expressway and Songhua River Bridge were entitled to such after-sales services; the phase II of the Harbin-Daqing Expressway, Guangzhou Huanan Expressway and Guangzhou-Zhuhai East Expressway were still under the warranty period. For the two years ended 31 December, 2000 and the three months ended 31 March, 2001, there was no after-sales service income received by the Group.

QUALITY CONTROL

The Directors recognise that continuous improvements in product quality are vital to enhancing its competitiveness. From September 1999, the Group began to follow ISO9001 quality control procedures on a trial basis. Since then, each development process has been conducted according to the procedures set out in the ISO9001 standards. On 1 February, 2000, the Group was granted the ISO9001 certificate.

The Directors believe that, among other things, the two most important procedures in the system development process are the following:–

- Component/equipment quality assurance – the Group demands high product standards on its contracted manufacturers. Most of the components and equipment are sourced from well-known international companies. All the components and equipments have to pass a series of quality control tests prior to installation.
- System quality assurance – the installation and integration process are strictly monitored to ensure that they fully comply with the Group’s standardised operational procedures which were set up according to the ISO9001 standards.

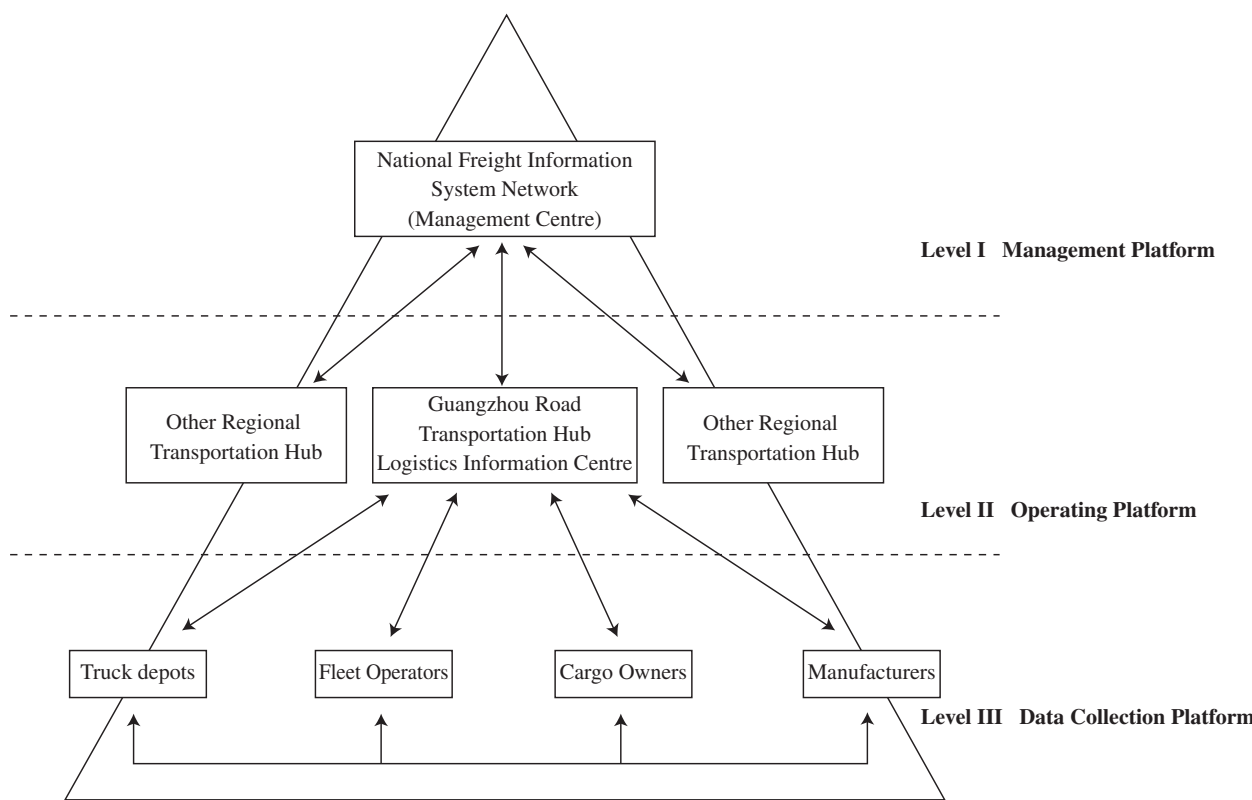
DEVELOPMENT OF FREIGHT LOGISTICS MANAGEMENT INFORMATION SYSTEM

In recognising the need to use information technology in the transportation industry, the Ministry of Communications of the PRC launched a plan in early 1990’s to build an integrated nationwide transportation network around the country. Forty-five cities in the PRC were designated as the regional transportation hubs to carry out logistics management within the region as well as communications with other hubs. It is expected that the integrated network will significantly improve the transportation efficiency around the country through the application of the latest logistics management and computer networking technologies.

According to the plan, Guangzhou is chosen as one of the six cities to implement the plan on a trial basis. The development process is coordinated and supervised by the Guangzhou Municipal Transportation Commission. Since the end of 1999, the Group began to prepare a proposal for the development of a freight logistics management information system for the transportation hub. In March 2000, the proposal was completed and the structure of the logistics management information system is as below.

Structure of the freight logistics management information system

The freight logistics management information system comprises three levels of operation: the management platform, the operating platform and the data collection platform. The data collection platform is located at each truck depot and the offices of large manufacturers and fleet operators. The platform collects various cargo and fleet information including cargo type, quantity, time of delivery, mode of delivery, truck type, time of availability, routes and location. These data will then be transmitted to the operating platform located at the control centre through WAN communication networks. The operating platform, which is the second level of operation, will process and analyse these data and notify the cargo owners and the fleet operators to arrange for pick-ups and deliveries. The control centre will trace the cargo from the time of their pick-up until they reach their destinations to ensure a successful completion of the delivery process. The management platform is located at the national network level to facilitate the coordination among each regional transportation hub. The following diagram illustrates the structure of the logistic management information system:–



Structure of Freight Logistics Management Information System

On 16 March, 2000, the Group entered into a non-binding memorandum of understanding with Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited, an operator of a truck depot in Guangzhou and a third party independent of any member of the Group, the Directors, the chief executive of the Company and its subsidiaries, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders

and their respective associates, to implement a freight logistics management information system at a truck depot in Baiyun District, Guangzhou, the PRC. Pursuant to the memorandum of understanding, the Group will be responsible for the design, development and the implementation of a freight logistics management information system and the truck depot operator will provide spaces for installation of the hardware in respect of the management information system. The Group and Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited will be jointly responsible for the operating costs, and they will share the operating revenue of the system according to a ratio to be determined by both parties.

As at the Latest Practicable Date, the Group completed the system design of the freight logistics management information system and the computer software development of the property and facilities management sub-system. However, due to the complexity of the computer software and the limited financial and human resources of the Group, the Group has yet to fully complete the development of all sub-systems comprising the computer software, namely system management, transportation system, logistics system, ordering system, information system and e-business and the integration of each of these sub-systems. With the proceeds from the New Issue, the Directors expect that the development of the computer software will be completed towards the end of 2001.

The Group is in discussion with Guangzhou City Xinshi Henan Passenger and Cargo Transport Company Limited in relation to the detailed terms and conditions in respect of the co-operation. In this connection, the Directors expect a formal contract to be entered into by both parties towards the end of September 2001 to set forth in details the form of co-operation, the detailed terms and conditions of the implementation and the profit sharing ratio. The Directors also expect that the stage-by-stage implementation of the freight logistic management information system will commence in September 2001 and will complete in December 2001. The revenue of the Group is expected to come from a number of sources, including membership fees, transaction commission, warehouse management fee and income from other value-added services. The monthly operating and maintenance costs of the system are estimated to be approximately RMB150,000 (approximately HK\$140,000).

In addition, the Group is currently in discussion with a number of truck depot owners, manufacturers and major fleet operators in the PRC for the implementation of the freight logistics management information system at other truck depots in order to explore potential markets for the system. In this connection, the Group is currently undertaking the development of the computer software for the freight logistics management information systems that may also be implemented on other truck depots.

As at 30 June, 2001, the Group incurred approximately HK\$650,000 for the development of the freight logistics management information system.

COMPETITION

In general, the Group faces competition from approximately 30 domestic expressway technology solution providers in the PRC. However, as the transport technology solution industry is a specialised industry which requires a high level of sophistication in a number of technical fields, such as communication networking, computers, electrical engineering and transportation, the Directors believe that the entry barriers of the industry are relatively high. The Directors estimate that, based on the Group's market research conducted from time to time, as at 31 December, 2000, the Group occupied approximately 4.6 per cent. market share in the transport technology solution industry in the PRC based on the total length of the expressways in the PRC.

The Group also faces competition from a few foreign companies in the PRC being engaged in highway and expressway transportation technology solution business. These companies are primarily equipment suppliers, and the Directors believe that the Group enjoys competitive advantages over these companies in terms of equipment prices, software adaptability and conformity with the PRC domestic industry standards.

The Directors believe that the Group has the following principal strengths:–

The Group is one of the first companies in the PRC to engage in the business of providing transportation technology solutions for highways and expressways in the PRC

The Directors believe that the Group is one of the first companies in the PRC to engage in the business of provision and implementation of management information systems for toll collection, traffic surveillance and optical fibre road network communication systems for highways and expressways in the PRC. As at the Latest Practicable Date, the Group had installed these systems at six expressways in the PRC. With its software development capability, the Group has developed the "B & A Expressway Toll Collection System" which has been installed at four of these six expressways in the PRC with the other two expressways using toll collection system software developed by other companies. In April 1998, the Group installed one of the first electronic image verification systems for traffic surveillance in the PRC at the Harbin-Daqing Expressway. In June 2000, the Group also installed one of the first optical fibre road network communication systems in the PRC at the Harbin-Daqing Expressway.

Research and development capability

As at the Latest Practicable Date, the Group's research and development department and the engineering department had 30 engineers. The "B & A Expressway Toll Collection System" was first developed by the Group in 1997. With the continuous developments and modifications during the last three years and on the basis of market research conducted by the Group from time to time and information and commentary published on professional journals in the PRC, the Directors believe that the "B & A Expressway Toll Collection System" is one of the most sophisticated toll collection computer software currently available in the PRC for toll highways and expressways.

Experienced management team

The Group has an experienced management team with technical expertise in the PRC transportation and information technology industry. Most of the key management members have joined the Group since the early stage of its establishment in 1996.

INTELLECTUAL PROPERTY RIGHTS

The Group has applied for patent and software copyright protection for the proprietary rights in relation to two of its technological achievements and products in the PRC, namely the toll collection system with the automatic picture-capturing function and the “B & A Expressway Toll Collection System” software, respectively. In April 2000, the Group received an Acceptance Notice of Application for Patents Registration from the State Intellectual Property Rights Bureau of the PRC for the patent application in respect of the toll collection system with the automatic picture-capturing function. The Directors do not envisage that there will be any difficulty in establishing the Group’s proprietary rights for such technology and product and obtaining the patent applied for. In May 2000, a Certificate of Registration of Software Copyrights was granted to Beijing Angels in respect of the “B&A Expressway Toll Collection System” with an initial protection period of 25 years commencing on 5 April, 1998 which may be renewed for another term of 25 years.

CONNECTED TRANSACTIONS

The Group has entered into certain connected party transactions during the two years ended 31 December, 2000 and the three months ended 31 March, 2001 and up to the date of this prospectus. All the transactions described below will cease after the listing of the Shares on GEM. The following is a summary of these connected party transactions:-

- During each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001, Mr. Yan and Mr. Lau provided unsecured and interest-free loans to Beijing Angels, Angels Transport, Angels Logistics and Angels Technology from time to time for the operation of the Group and payment for certain professional fees in relation to the Company’s application for listing on GEM. On 16 August, 2001, the amounts of approximately HK\$4,686,000 and HK\$2,008,000, representing the amounts of loan due from the Group to Mr. Yan and Mr. Lau respectively as remained outstanding as at that date, were capitalised by applying such amounts to pay up in full the shares applied for by Mr. Yan and Mr. Lau as described in sub-paragraphs (viii) and (ix) of the section headed “Corporate reorganisation” in Appendix IV to this prospectus.
- During the year ended 31 December, 2000, the Group received advances of HK\$2,160,000 from a connected person, Angels Investments Consultants Limited, which is beneficially wholly-owned by Mr. Yan. The amount is unsecured and interest free. It is the Company’s intention to settle the full amount of such loan by using HK\$2,160,000 of the proceeds

from the New Issue immediately following completion of the Placing. Angels Investment Consultants Limited is currently inactive and will not engage in any businesses which compete or may compete with the existing business of the Group.

- On 23 December, 1999, Beijing Angels, 慎豐化工建材(深圳)有限公司 (Shenfeng Chemical Construction Materials (Shenzhen) Company Limited*) (the “Creditor”) and Mr. Yan entered into an agreement whereby Beijing Angels novated to Mr. Yan a debt in the sum of RMB800,000 owed by it to the Creditor for the consideration of RMB800,000 and Mr. Yan accepted the liability to repay such sum to the Creditor. Such amount has been transferred to the advances from Mr. Yan to Beijing Angels on 23 December, 1999. The Creditor is a third party independent of any member of the Group, the Directors, the substantial shareholders (as defined in the GEM Listing Rules) of the Company, the Initial Management Shareholders and their respective associates.
- On 1 March, 2000, the Group disposed its leasehold land and buildings including certain furniture, fixtures and equipment with a net book value of HK\$2,002,000 to Mr. Yan at a consideration of RMB2,100,000 (approximately HK\$1,963,000). DTZ Debenham Tie Leung Limited, an independent property valuer, was of the opinion that the consideration was reasonable and in line with the market value of the property.

Save as disclosed above, the Group did not enter into any significant connected transactions during the two years ended 31 December, 2000 and the three month period ended 31 March, 2001. Further information on related party transactions of the Group is set forth in the accountants’ report, the text of which is set forth in Appendix I to this prospectus.

* *For identification only*

DIRECTORS, SENIOR MANAGEMENT, EMPLOYEES AND AUDIT COMMITTEE OF THE BOARD

EXECUTIVE DIRECTORS

YAN, Daniel X.D., aged 38, is the founder of the Group and the chairman of the Company. Mr. Yan is responsible for the Group's overall strategic planning. He holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade, the PRC. After his graduation in 1984, Mr. Yan established Beijing Angels in January 1996.

LAU, Andrew Kim, aged 32, is an executive Director. Mr. Lau is responsible for the Group's overall strategic planning and formulation of corporate strategy of the Sales and Marketing Division. Mr. Lau graduated from Dalian Maritime University, the PRC in 1992. Mr. Lau joined the Group in October 1996.

ZHU Quan, aged 38, is an executive Director. Mr. Zhu is responsible for the Group's overall strategic planning and coherent operation of the Company. Mr. Zhu holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade. Mr. Zhu joined the Group in May 1996 as the general manager.

SHEK Ying, Christine, aged 30, is an executive Director. Ms. Shek is responsible for the Group's overseas business development and cooperation with foreign business partners. Ms. Shek holds a bachelor's degree in English Language and Literature from Beijing Normal University. After graduation in 1992, Ms. Shek worked for an information technology company for approximately six years. Ms. Shek joined the Group in April 2000. Ms. Shek is the spouse of Mr. Lau.

INDEPENDENT NON-EXECUTIVE DIRECTORS

YANG Xiaoping, aged 37, is an independent non-executive Director. Mr. Yang is currently an executive director of Hong Kong Fortune Limited, a company listed on the Stock Exchange. Mr. Yang was appointed as an independent non-executive Director in January 2001.

ZHAO Ming, aged 43, is an independent non-executive Director. Mr. Zhao is currently the general manager of Charter Harvest Shipping Limited. Mr. Zhao holds a Master's degree in Arts from the University of Texas at Austin, the US and a bachelor's degree in chemistry from Zhongshan University, the PRC. Mr. Zhao was appointed as an independent non-executive Director in January 2001.

DIRECTORS, SENIOR MANAGEMENT, EMPLOYEES AND AUDIT COMMITTEE OF THE BOARD

SENIOR MANAGEMENT OF THE GROUP

ZHU Jia Wei, aged 63, is the chief technical consultant of the Group. After graduation from the faculty of computer science of Qinghua University, the PRC in 1959, Mr. Zhu lectured at Qinghua University and became a professor in 1986. Mr. Zhu was awarded the Outstanding Experts Award by the Ministry of Personnel of the PRC in 1988. Mr. Zhu joined the Group in 1996 as the chief technical consultant to provide technical support to the Group's products and services.

TIAN Guo Cheng, aged 42, is the chief engineer and the head of the hardware development department of the Group. Dr. Tian holds a doctorate's degree in fibre optical communications from Northern China Communications University, the PRC. Dr. Tian joined the Group in 1996 and is responsible for the overall design and development of hardware components used in the various systems on expressways.

JIN Ji Dong, aged 38, is the head of the systems department of the Group. Mr. Jin is responsible for the systems architecture design and the preparation of tender documents. Mr. Jin holds a bachelor's degree in mathematics and computer science from the Capital University of Economics and Trade, the PRC. Before joining the Group in March 1997, Mr. Jin lectured as an assistant professor at the Capital University of Economics and Trade, the PRC.

YAN Xiao Qiang, aged 31, is the assistant general manager of the Group. Mr. Yan Xiao Qiang holds a bachelor's degree in electrical engineering from Harbin Industrial University, the PRC. Mr. Yan Xiao Qiang joined the Group in October 1996. Mr. Yan Xiao Qiang is the brother of Mr. Yan.

XU Li, aged 38, is the head of the software development department of the Group. Mr. Xu holds a bachelor's degree in wireless electrical engineering from the Beijing Normal University. Mr. Xu joined the Group in November 1998.

TIAN Xiu Zhan, aged 37, is the head of the engineering department of the Group. Mr. Tian holds a master's degree in telecommunications engineering from Northern China Communications University, the PRC and a master's degree in electrical engineering from Zurich Federal Institute of Technology, Switzerland. Before joining the Group in 1998, Mr. Tian was involved in the development of intranet and internet project of Beijing Television and the cheque management system of the Bank of China, Shenyang Branch.

DIRECTORS, SENIOR MANAGEMENT, EMPLOYEES AND AUDIT COMMITTEE OF THE BOARD

HON Yin Wah, Eva, aged 29, is the financial controller and company secretary of the Company. Ms. Hon holds a bachelor's degree in Business Administration from the Hong Kong University of Science and Technology. Prior to joining the Group in March 2000, Ms. Hon worked as a manager at PricewaterhouseCoopers. Ms. Hon is an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

WANG Jia Ning, aged 52, is the financial manager of Beijing Angels. Ms. Wang has approximately 20 years of financial management experience. Before joining the Group in 1996, Ms. Wang worked for a governmental institution as head of the finance division. Ms. Wang has solid experience in accounting practices in the PRC.

AUDIT COMMITTEE OF THE BOARD

The Company established an audit committee on 16 August, 2001 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee of the Board will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group.

The audit committee has two members comprising the two independent non-executive Directors, Messrs. Yang Xiaoping and Zhao Ming. Mr. Yang Xiaoping is the chairman of the audit committee.

EMPLOYEES OF THE GROUP

As at the Latest Practicable Date, the Group had a total of 77 full-time employees, with 6 in Hong Kong and 71 in the PRC. Set out below is a breakdown of the number of the Group's full-time employees by function:–

	Hong Kong	PRC	Total
Management	3	7	10
Finance and administration	3	18	21
Sales and marketing	–	5	5
Engineering	–	28	28
Research and development	–	11	11
Quality control	–	2	2
	<hr/>	<hr/>	<hr/>
Total	6	71	77
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

DIRECTORS, SENIOR MANAGEMENT, EMPLOYEES AND AUDIT COMMITTEE OF THE BOARD

The Group's success and ability to compete depend in part on the Company's ability to continue to attract, retain and motivate highly qualified technical and management personnel, particularly highly skilled technical personnel and engineers who are involved in new product development. The Directors believe that the Group has a good relationship with its employees. The Group has not experienced any material disruption of its operations due to labour disputes since its establishment.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme pursuant to which employees of the Group and the Directors may be granted options to subscribe for Shares subject to the terms and conditions of the Share Option Scheme and the applicable requirements under the GEM Listing Rules. A summary of the principal terms of the Share Option Scheme is set forth under "Share Option Scheme" in Appendix IV to this prospectus.

OTHER BENEFITS TO THE STAFF OF THE GROUP

The Group provides its staff with staff benefit schemes, including a provident fund scheme, details of which are set forth in Appendix I to this prospectus. The Company provides its Hong Kong staff with a medical insurance scheme and makes contributions to the mandatory provident fund in accordance with the laws and regulations in Hong Kong.

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

Immediately following completion of the Placing (but without taking into account Shares which may be taken up under the Placing and the Shares falling to be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), the following Shareholders will be interested in 10 per cent. or more of the voting power at any general meeting of the Company:–

Substantial Shareholders	Number of Shares directly held immediately after the Placing	Percentage of direct shareholding immediately after the Placing
Sebastian (<i>Note 1</i>)	81,900,000	45.5
Mitac (<i>Note 2</i>)	35,100,000	19.5

Notes:–

1. Sebastian is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Yan. Sebastian is an investment holding company.
2. Mitac is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Lau. Mitac is an investment holding company.

SIGNIFICANT SHAREHOLDERS OF THE COMPANY

Immediately following completion of the Placing (but without taking into account Shares which may be taken up under the Placing and the Shares falling to be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), apart from the substantial shareholders (as defined in the GEM Listing Rules) of the Company referred to above, so far as the Directors are aware, there will be no other Shareholders who will be interested in 5 per cent. or more of the voting power at any general meeting of the Company.

INITIAL MANAGEMENT SHAREHOLDERS

Immediately following completion of the Placing, the following Shareholders (but without taking into account Shares which may be taken up under the Placing and the Shares falling to be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) will be entitled to exercise or control the exercise of 5 per cent. or more of the voting power at any general meeting of the Company and will be able, as a practical matter, to direct or influence the management of the Company and are therefore regarded as

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

Initial Management Shareholders. The respective shareholdings of the Initial Management Shareholders are set out below:–

Initial Management Shareholders	Number of Shares directly held immediately after the Placing	Percentage of direct shareholding immediately after the Placing (Note 1)
Sebastian (Note 2)	81,900,000	45.5
Mitac (Note 3)	35,100,000	19.5

Notes:–

1. Assuming that no Shares will be issued pursuant to the exercise of the the Over-allotment Option and the options which may be granted under the Share Option Scheme.
2. Sebastian is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Yan. Sebastian is an investment holding company. Mr. Yan is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Sebastian is interested. On this basis, Mr. Yan is deemed to be an Initial Management Shareholder.
3. Mitac is a company incorporated in the BVI, the entire share capital of which is beneficially owned by Mr. Lau. Mitac is an investment holding company. Mr. Lau is deemed, pursuant to the SDI Ordinance, to be interested in the Shares in which Mitac is interested. On this basis, Mr. Lau is deemed to be an Initial Management Shareholder.

Pursuant to Rule 13.16 of the GEM Listing Rules, an issuer shall procure that every initial management shareholder who, immediately prior to the listing date is entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the issuer, (i) places in escrow, with an escrow agent acceptable to the Stock Exchange, its relevant securities (as defined in the GEM Listing Rules) for a period of two years from the listing date, on terms acceptable to the Stock Exchange; and (ii) undertakes to the issuer and the Stock Exchange that, for a period of two years from the listing date, that it shall 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 of its direct or indirect interest in the relevant securities (as defined in the GEM Listing Rules) save as under certain specified circumstances set out in Rule 13.17 of the GEM Listing Rules.

An application for a waiver has been made to the Stock Exchange to exempt each of the Initial Management Shareholders from strict compliance with the moratorium period requirement under Rule 13.16 of the GEM Listing Rules and to accept each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company giving an undertaking to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange (i) not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his or its direct or indirect interest in the Company during a

SUBSTANTIAL, SIGNIFICANT AND INITIAL MANAGEMENT SHAREHOLDERS

period of six months commencing from the date on which dealings in the Shares on GEM commence (the “First Six-Month Period”) and (ii) to place the relevant securities (if applicable) in escrow with an escrow agent acceptable to the Stock Exchange during that period instead of two years from the date on which dealings in the Shares on GEM commence.

The Stock Exchange has granted a waiver to the effect that the moratorium period requirement prescribed in Rule 13.16 of the GEM Listing Rules applicable to the Initial Management Shareholders has been reduced from two years to the First Six-Month Period, provided that during a period of six months immediately after the First Six-Month Period (the “Second Six-Month Period”), the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company must not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their direct or indirect interest in the Company which would result in the Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company ceasing to control 35 per cent. of the voting power at any general meeting of the Company. The Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company also undertake that they shall place such number of Shares in escrow with an escrow agent acceptable to the Stock Exchange during the Second Six-Month Period. Each of Mr. Yan and Mr. Lau has further undertaken with the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that he shall not dispose of his interests in Sebastian or Mitac, respectively, during the First Six-Month Period and the Second Six-Month Period.

In addition, Sebastian, Mr. Yan and DBS Asia entered into the Stock Borrowing Agreement pursuant to which Sebastian shall, upon request by DBS Asia, lend up to 9,450,000 Shares, representing 15 per cent. of the Shares initially available under the Placing, to DBS Asia which Shares shall be returned to Sebastian and deposited in escrow with the escrow agent not later than the third business day following the last day on which the Over-allotment Option may be exercised or the date on which the Over-allotment Option is exercised in full, whichever is the earlier. Particulars of the Stock Borrowing Agreement are set forth under “Over-allotment Option” in the section headed “Structure and conditions of the Placing” in this prospectus.

The Stock Exchange has also granted a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to allow Sebastian and Mr. Yan to dispose of its or his interest in the Company during the moratorium period as may be prescribed by the GEM Listing Rules at the time of listing of the Shares where such disposal is made pursuant to the Stock Borrowing Agreement.

NON-DISPOSAL UNDERTAKINGS

Particulars of the non-disposal undertakings given by each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company are set forth under “Initial Management Shareholders” in the section headed “Substantial, significant and Initial Management Shareholders” in this prospectus.

ESCROW ARRANGEMENTS

Each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company has undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that it or he shall place or procure to be placed in escrow with an escrow agent its or his Shares or the Shares held by its or his associates during a period of six months from the date on which dealings in the Shares on GEM commence (the “First Six-Month Period”).

Each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that it or he shall place or procure to be placed in escrow with an escrow agent its or his Shares or the Shares held by its or his associates during a period of six months immediately after the First Six-Month Period such that it or he, or its or his associates, will together with the other Initial Management Shareholders and the controlling shareholders (as defined in the GEM Listing Rules) of the Company or their associates, not cease to control less than 35 per cent. of the voting power at any general meeting of the Company, being the threshold required of a controlling shareholder (as defined in the GEM Listing Rules).

OTHER UNDERTAKINGS

Each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) has further undertaken to the Company, DBS Asia (acting on behalf of the Underwriters) and the Stock Exchange that (a) when it or he during a period of twelve months commencing on the date on which dealings in the Shares on GEM commence pledges or charges any interests in the relevant securities (as defined in the GEM Listing Rules) it or he shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details; and that (b) when it or he receives indications, either verbal or written, from any pledgee or chargee that the interest of the relevant securities (as defined in the GEM Listing Rules) pledged or charged by it or him will be or has been disposed of, it or him shall immediately inform the Company and DBS Asia (acting on behalf of the Underwriters) in writing of such indications for disposal.

UNDERTAKINGS GIVEN BY THE INITIAL MANAGEMENT SHAREHOLDERS

Each of the Initial Management Shareholders, being Sebastian, Mitac, Mr. Yan and Mr. Lau, and the controlling shareholders (as defined in the GEM Listing Rules) of the Company and the executive Directors has undertaken to and covenanted with the Underwriters to procure that members of the Group shall not, save for the issue of Shares pursuant to the Placing and pursuant to the exercise of the Over-allotment Option, or the grant of any option under the Share Option Scheme or the exercise of any option granted under the Share Option Scheme or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares, within the First Six-Month Period, issue, accept subscriptions for, offer, sell, contract to sell or, grant or agree to grant any option or other rights in or to subscribe for or otherwise dispose of shares or debentures (other than debentures granted as security collateral for borrowings in the ordinary course of business) or other securities (including securities convertible or exchangeable for shares) of the Company or any other member of the Group or any interests therein.

SHARE CAPITAL

<i>Authorised:–</i>	<i>HK\$</i>
<u>1,200,000,000 Shares</u>	<u>120,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:–</i>	
130,000,000 Shares in issue	13,000,000
<u>50,000,000 Shares to be issued pursuant to the New Issue</u>	<u>5,000,000</u>
<u>180,000,000 Shares</u>	<u>18,000,000</u>

The minimum level of public float to be maintained by the Company at all times after listing, as required by the GEM Listing Rules, is 20 per cent. of its share capital in issue from time to time.

Assumptions

The above table assumes that the Placing becomes unconditional.

It takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme or under the general mandate (see below) or which may be repurchased by the Company (see below).

Ranking

The Placing Shares shall rank equally in all respects with all Shares in issue or to be issued and shall qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme, and a summary of its principal terms is set forth under “Share Option Scheme” in Appendix IV to this prospectus.

General mandate to issue new Shares

If the Placing becomes unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:–

1. 20 per cent. of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table); and

SHARE CAPITAL

2. the total amount of share capital of the Company repurchased by the Company (if any).

This mandate does not entitle the Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:–

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by law or its articles of association to hold its annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under “Further information about the Company” in Appendix IV to this prospectus.

General mandate to repurchase Shares

If the Placing becomes unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to buy back Shares with a total nominal value of not more than 10 per cent. of the total nominal amount of the share capital of the Company issued and to be issued (as set out in the above table).

This mandate only relates to repurchases made on GEM, or any other stock exchange on which the Shares are listed (and which is recognised by the Securities and Futures Commission in Hong Kong and the Stock Exchange for this purpose), and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set forth under “Repurchase by the Company of its own securities” in Appendix IV to this prospectus.

This mandate will expire:–

- at the end of the Company’s next annual general meeting; or
- at the end of the period within which the Company is required by law or its articles of association to hold its annual general meeting; or
- when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

INDEBTEDNESS**Borrowings**

As at the close of business on 30 June, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had borrowings of a total outstanding amount of approximately HK\$10,130,000 comprising of amount due to a related company and amounts due to the Directors of HK\$2,160,000 and HK\$7,970,000 respectively. Such amounts are unsecured and interest free. Since 30 June, 2001, the amounts due to the Directors in the sum of HK\$7,970,000 have been settled as to approximately HK\$1,276,000 by the Company out of its internal resources generated from the operation of Beijing Angels and the remaining balance of approximately HK\$6,694,000 (including the amount due to the Directors of HK\$6,386,000 as at 31 March, 2001 and set forth in the accountants' report, the text of which is set forth in Appendix I to this prospectus) by way of capitalisation. The amount due to a related company of HK\$2,160,000 will be settled using the proceeds from the New Issue immediately following completion of the Placing.

Contingent liabilities

As at 30 June, 2001, the Group did not have any significant contingent liabilities.

Capital Commitments

As at 30 June, 2001, the Group did not have any significant capital commitments.

Disclaimer

Save as aforesaid or otherwise disclosed herein, the Group did not have any loan capital, bank overdrafts, debentures, mortgages charges, loans or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30 June, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus.

The Directors confirm that there has been no material adverse change in the indebtedness of the Group since 30 June, 2001, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 June, 2001.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Capital structure

As at 30 June, 2001, the Group had net current assets of approximately of HK\$9.2 million. The current assets comprised amounts due from customers for contract works of approximately HK\$20.8 million, trade receivables, deposits and other receivables of approximately HK\$7.7 million and cash and bank balances of approximately HK\$0.2 million. The current liabilities comprised receipts in advance, trade payables, accrued charges and other payables of approximately HK\$9.3 million, amount due to a related company of approximately HK\$2.2 million and amount due to the Directors of approximately HK\$8.0 million.

Borrowings and banking facilities

Historically, the Group had been financed by advances from a related company and the Directors. As at 30 June, 2001, the Group did not have any available banking facilities and its only outstanding indebtedness was the amount due to a related company of approximately HK\$2,160,000 and the amounts due to the Directors of approximately HK\$7,970,000.

Taking into account the net proceeds from the New Issue, and cash generated from operations, the Directors believe that the Group has sufficient working capital to meet its present requirements.

Foreign exchange

As all of the Group's turnover and purchases are settled in RMB, the Directors are of the opinion that the Group does not have any significant foreign exchange exposure, and as at the date of this prospectus, there is no forecast or plan in relation to the distribution of dividends. However, Beijing Angels, the major operating entity of the Group, derives all of its revenue in RMB whereas the Company may need Hong Kong dollars for the purpose of declaration and distribution of dividends in the future. Thus, the Group will be subject to exchange rate risks and in the event of a devaluation of RMB against Hong Kong dollars, the Group's profit which may be distributed to Shareholders could be affected.

FINANCIAL INFORMATION

TRADING RECORD

The following summary of the combined results of the Group for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001 is extracted from the accountants' report of the Group (except for earnings/(loss) per Share), the text of which is set forth in Appendix I to this prospectus:—

	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover (<i>Note 1</i>)	25,254	47,080	1,718
Cost of services	<u>(16,789)</u>	<u>(25,270)</u>	<u>(1,380)</u>
Gross profit	8,465	21,810	338
Other revenue	11	36	6
Distribution costs	(1,360)	(1,608)	(436)
Administrative expenses	<u>(3,611)</u>	<u>(7,703)</u>	<u>(2,105)</u>
Operating profit/(loss)	3,505	12,535	(2,197)
Taxation	<u>(65)</u>	<u>—</u>	<u>—</u>
Profit/(loss) after taxation	3,440	12,535	(2,197)
Minority interests	<u>(1,204)</u>	<u>(292)</u>	<u>—</u>
Combined profit/(loss) for the year/period	<u><u>2,236</u></u>	<u><u>12,243</u></u>	<u><u>(2,197)</u></u>
Dividends	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Earnings/(loss) per Share (<i>Note 2</i>)	<u><u>1.72 cents</u></u>	<u><u>9.42 cents</u></u>	<u><u>(1.69) cents</u></u>

Notes:—

- Turnover represents total value of services rendered to customers net of PRC value-added tax and sales tax.
- The calculation of basic earnings per Share is based on the Group's combined profit/(loss) for the respective periods and the 130,000,000 Shares deemed to be in issue throughout the two years ended 31 December, 2000 and the three months ended 31 March, 2001 on the assumption that Reorganisation was completed on 1 January, 1999.

Taxation

No provisions for Hong Kong profits tax has been made as the Group has no estimated assessable profit for the two years ended 31 December, 2000 and the three months ended 31 March, 2001.

The subsidiary operating in the PRC, Beijing Angels, is subject to an income tax rate of 33 per cent. on its taxable profit in accordance with the income tax law in the PRC. Pursuant to a notice dated 1 February, 1996 issued by 北京市海澱區地方稅務局 (Local Taxation Bureau of Beijing Haidian District), Beijing Angels is eligible for the New Technology Enterprise status and hence entitled to a reduced income tax rate of 15 per cent. The notice also stated that the subsidiary is entitled to full exemption from PRC income tax from the years 1996 to 1998 followed by a 50 per cent. reduction in the income tax rate (i.e. 7.5 per cent.) for the years 1999 to 2001. A taxation charge of HK\$65,000 was paid in 1999 at the reduced tax rate of 7.5 per cent. Subsequently, by a notice issued by 北京市海澱區國家稅務局 (State Taxation Bureau of Beijing Haidian District) on 14 November, 2000, Beijing Angels was granted full exemption from PRC income tax from the years 2000 to 2002 followed by a 50 per cent. reduction in the income tax rate (i.e. 7.5 per cent.) for the years 2003 to 2005.

Guangzhou Angels is subject to an income tax rate of 33 per cent. on its taxable profit. Guangzhou Angels was approved as a “Newly-established Advanced and New Technology Enterprise” on 19 September, 2000 and is therefore entitled to a reduced tax rate of 15 per cent.

* For identification only

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS

The following is a discussion of the combined results of operations of the Group for the two years ended 31 December, 2000 and three months ended 31 March, 2001. The following discussion should be read in conjunction with the combined financial information and related notes and other financial data in the accountants' report, the text of which is set forth in Appendix I to this prospectus.

Financial year ended 31 December, 1999

For the year ended 31 December, 1999, the total turnover of the Group was approximately HK\$25.3 million with a gross profit of approximately HK\$8.5 million, representing a gross profit margin of approximately 33.6 per cent. The Directors believe that the Group's results do not have any seasonal patterns. The table below sets out the total turnover by projects and their respective percentages against the total turnover in this year and the gross profit margin in each project:–

	Turnover <i>(HK\$'000)</i>	Percentage of turnover <i>(%)</i>	Gross profit margin <i>(%)</i>
Harbin-Daqing Expressway	19,119	75	30
Guangzhou Huanan Expressway	4,486	18	53
Shenzhen-Shantou Expressway	1,203	5	19
Chuxiong-Dali Expressway	446	2	20
	<u> </u>	<u> </u>	
Total	<u> </u> <u> </u>	<u> </u> <u> </u>	

Distribution costs of approximately HK\$1.4 million comprised travelling expenses and vehicle maintenance, representing approximately 5.5 per cent. of the total turnover for the year. Administrative expenses of approximately HK\$3.6 million comprised salaries, office rental and depreciation, representing approximately 14.2 per cent. of the total turnover for this year.

Taxation was approximately HK\$65,000 for the year. The provision of taxation for this year was based on the estimated taxable income for the PRC taxation purposes at the rate of taxation applicable to the year. Due to the difference in revenue recognition policies between the generally accepted accounting standards in Hong Kong and the PRC accounting standards, the estimated taxable income for the PRC taxation purposes is lower than the profit before taxation under the generally accepted accounting standards in Hong Kong. As such, the effective tax rate for this year was approximately 1.9 per cent. which was lower than the applicable tax rate of 7.5 per cent. for this year.

Profit for the year was approximately HK\$2.2 million, representing a net profit margin of approximately 8.7 per cent.

FINANCIAL INFORMATION

Financial year ended 31 December, 2000

During the year ended 31 December, 2000, the Group recorded a turnover of approximately HK\$47 million with gross profit of approximately HK\$22 million and gross profit margin of approximately 46.3 per cent. The gross profit margin increased from that of the previous year. Such increase was mainly attributable to the higher gross profit margin contributed by the Guangzhou Huanan Expressway project which accounted for approximately 58 per cent. of the total turnover for this year. The Directors believe that the Group's results do not have any seasonal patterns. The table below sets forth the total turnover by projects and their respective percentages against the total turnover in this year and the gross profit margin in each project:–

	Turnover <i>(HK\$'000)</i>	Percentage of turnover <i>(%)</i>	Gross profit margin <i>(%)</i>
Guangzhou Huanan Expressway	27,380	58	47
Guangzhou-Zhuhai Expressway	12,652	26	60
Harbin-Daqing Expressway	3,111	6	10
Chuxiong-Dali Expressway	2,397	5	10
Songhua River Bridge	980	3	38
Shenzhen-Shantou Expressway	560	2	60
	<hr/>	<hr/>	
Total	<u>47,080</u>	<u>100</u>	

Distribution costs of approximately HK\$1.6 million comprised travelling expenses and vehicle maintenance, representing approximately 3.4 per cent. of the total turnover for the year. Administrative expenses of approximately HK\$7.7 million comprised salaries, office rental, depreciation and provision for doubtful debts representing approximately 16.4 per cent of the total turnover for the year. Increase in administration expenses as compared to the previous year was mainly due to the establishment of an office in Hong Kong.

No taxation was charged during the year, since there was no estimated taxable income for the year ended 31 December, 2000. Profit for the year was approximately HK\$12.2 million, representing a net profit margin of approximately 26.0 per cent.

FINANCIAL INFORMATION

Three months ended 31 March, 2001

During the three months ended 31 March, 2001, the Group recorded a turnover of approximately HK\$1.7 million contributed by the Kunming-Yuxi Expressway project, with gross profit of approximately HK\$0.3 million and gross profit margin of approximately 17.6 per cent. The gross profit margin decreased significantly from that of the previous year. Such decrease was mainly due to the Group's marketing strategy to offer a very competitive price for the Kunming-Yuxi Expressway project, as the Kunming-Yuxi Expressway is located in Yunnan Province where the construction of expressways is developing rapidly. The marketing strategy of the Group aimed to attract other potential customers in Yunnan Province in the future. As a result of this marketing strategy, a lower gross profit margin was recorded. Such decrease was also attributable to the higher gross profit margin contributed by the Guangzhou Huanan Expressway project in the previous year. During the three months ended 31 March, 2001, there was no income contribution from the Chuxiong-Dali Expressway project which had been completed in late 2000. The Directors believe that the Group's results do not have any seasonal patterns. The table below sets out the total turnover by projects and their respective percentages against the total turnover in this period:—

	Turnover	Percentage of turnover (%)
Kunming-Yuxi Expressway	<u>1,718,000</u>	<u>100</u>
Total	<u><u>1,718,000</u></u>	<u><u>100</u></u>

Distribution costs of approximately HK\$0.4 million comprised travelling expenses and vehicle maintenance, representing approximately 23.5 per cent. of the total turnover for the period. Administrative expenses of approximately HK\$2.1 million comprised salaries, office rental and depreciation representing approximately 1.2 times of the total turnover for this period. The levels of distribution costs and administrative expenses were generally consistent with those of the year ended 31 December, 2000.

Loss for the period was approximately HK\$2.2 million, no taxation was charged during the period.

PROPERTY INTERESTS**Hong Kong**

The Group rents a unit situated at Unit No. 2210 on 22nd Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central with a saleable area of approximately 101.54 sq.m. as its head office in Hong Kong. The premises is leased from an independent third party pursuant to a tenancy agreement for a term of one year commencing from 25 August, 2000 to 24 August, 2001 at a monthly rental of HK\$29,442 exclusive of rates, management fee and air-conditioning charges.

The PRC

At present, the Group rents premises in the PRC from various independent third parties as offices and staff-quarters with an aggregate monthly rental of approximately RMB80,943 (approximately HK\$75,648), exclusive of management fees and utilities charges. Details of these premises are set forth in Appendix II to this prospectus.

Property valuation

The property interests attributable to the Group have been valued by DTZ Debenham Tie Leung Limited, an independent property valuer, at no commercial value as at 30 June, 2001. A copy of its letter, summary of valuations and valuation certificate is set forth in Appendix II to this prospectus.

DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

As at the Latest Practicable Date, the Group did not advance any money to any entity which exceeded 25 per cent. of the Group's net tangible assets, did not provide any financial assistance and guarantees to affiliated companies which exceeded 25 per cent. of the Group's net tangible assets, did not have any pledge over the Shares by the controlling shareholders (as defined in the GEM Listing Rules) of the Company to secure debts, guarantees or support of other obligations of the Group, and did not enter into any loan agreements imposing specific performance obligations on the controlling shareholders (as defined in the GEM Listing Rules) of the Company. The Directors are not aware of any circumstances which would give rise to a disclosure obligation under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

DIVIDEND POLICY

The Directors currently do not propose to recommend payment of any dividends for the year ending 31 December, 2001. The amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial condition and operating and capital requirements, the amount of distributable profits based on the generally accepted accounting principles in Hong Kong and the PRC, the applicable laws and regulations and all other relevant factors. The Directors expect that interim and final dividends will be paid in around August and April of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

WORKING CAPITAL

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

DISTRIBUTABLE RESERVES

The Company was incorporated on 7 April, 2000 and remains inactive, and hence there was no reserve available for distribution to shareholders as at 31 March, 2001.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of the adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 March, 2001 as shown in the accountants' report as set out in Appendix I to this prospectus and adjusted as follows:—

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31 March, 2001	14,188
Unaudited combined loss after taxation based on management accounts of the Group for the three months ended 30 June, 2001	(2,321)
Capitalisation of amounts due to directors	6,694
Estimated net proceeds from the New Issue	27,000
Adjusted net tangible assets of the Group	<u>45,561</u>
Adjusted net tangible asset value per Share (<i>Note</i>)	<u>25.3 cents</u>

FINANCIAL INFORMATION

Notes: The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of a total of 180,000,000 Shares expected to be in issue immediately following completion of the Placing, but takes no account of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme or 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 granted to the Directors as referred to under “Repurchase by the Company of its own securities” in Appendix IV to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 March, 2001 (being the date to which the latest audited combined financial statements of the Group were made up).

BUSINESS OBJECTIVE

The Directors believe that information technology will be widely used in the PRC, as in the case of other developed countries, such as Japan and the United States, to improve the coordination between different modes of transportation.

The Directors believe that the demand for management information systems to be used in traffic control and transportation industry in the PRC is expected to increase in the future. In anticipation of this development, the Directors intend to leverage on the Group's experience in implementing highway and expressway management information systems to expand into other applications of information technology, such as electronic payment systems and freight logistics management information systems. The Group's business objective is to become a leading transportation technology solution provider in the PRC. This business objective is to be achieved through the following implementation plans:–

Continue to penetrate the transportation technology solution market in Guangdong Province

As at the Latest Practicable Date, the Directors believe that there are 22 toll expressways in operation, eight toll expressways under construction and three expressways planned to be built in Guangdong Province, the PRC. Amongst the 22 toll expressways, 17 toll expressways were not equipped with computer systems to handle the toll collection process and the traffic management function. Most of these toll expressways are operated by the provincial government or joint venture companies established by the provincial government. The Group will seek to cooperate with the Guangdong Provincial Transportation Department, which is the supervising authority of the local transportation industry, to expand the use of its transportation technology solution at toll expressways in Guangdong Province, the PRC.

Expand the freight logistics management information system

The Directors plan to develop a freight logistics management information system which provides information transmission channels amongst major truck depots in Guangdong Province, the PRC with the objective of processing and exchanging data between the truck depots and transportation companies. The system is expected to enhance the efficiency and the coordination of cargo transportation by different modes of transportation within Guangdong Province, the PRC and between Guangdong Province and other neighbouring cities and provinces in the PRC. Upon completion of this system, the Directors plan to launch similar systems at other major cities in the PRC.

Market application software as packaged products

The Directors believe that the “B & A Expressway Toll Collection System” is one of the most sophisticated software of its kind currently available in the PRC which has been implemented at four expressways in the PRC operating an aggregate of 339 toll-gates as at the Latest Practicable Date. This computer software has been previously supplied by the Group to its customers on a

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

project basis. As this computer software is suitable for different types of highways and expressways in the PRC, the Directors expect that there will be market demand for the “B & A Expressway Toll Collection System”. To capitalise on these additional business opportunities, the Directors plan to develop a stand-alone and standard version of the computer software comprising certain basic system functions suitable for licensing to end-users.

Strengthen the research and development capability

The Directors believe that the continuous research and development activities of the Group will enable it to keep abreast of the latest market and technological developments which are critical to maintain the competitiveness of the services and the products provided by the Group. The Group will continue to enhance its capability in research and development in transportation technology solution and will seek cooperation with certain leading research institutions in the PRC.

IMPLEMENTATION PLANS

In order to achieve the Group’s objectives and strategies, the Company intends to attain the following targets up to the year ending 31 December, 2003. These targets and their respective scheduled time for attainment are formulated on the bases and assumptions as set out under “Bases and assumptions” below. Such bases and assumptions are inherently subject to many uncertainties and in particular the risk factors set out in the section headed “Risk factors” in this prospectus. Many of these assumptions are untested and accordingly may turn out to be invalid. As such, the Company’s current targets may not be achieved within the scheduled time limit or at all.

The following implementation plans will be funded by the proceeds from the New Issue as well as the funds received from the Group’s ordinary course of business.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

Period I: From the Latest Practicable Date to 31 December, 2001

Transportation technology solutions	Freight logistics management information system	Resources, employment and administration	Research and development
1. Complete systems integration for the Chuxiong – Dali Expressway.	1. Complete the development of computer software for freight logistics management system which includes	1. Recruit one professional with strong backgrounds in logistics management.	1. Research on the intelligent police traffic surveillance system.
2. Implement store-value smartcard technology on the Guangzhou Huanan Expressway.	seven sub-systems, namely system management, property and facilities		2. Develop the smart-card counting machine as a component of “B & A Expressway Toll Collection System”.
3. Complete the Kunming-Yuxi Expressway project.	management, transportation, logistic, ordering, information system		
4. Complete the Xiangtansan Bridge project.	and e-business.		3. Research on the broadband fibre communication system for expressways.

Use of proceeds

It is the Group’s present intention to apply approximately HK\$3.7 million of the net proceeds from the New Issue for the scheduled activities to be carried out during this period, of which approximately HK\$1.5 million, HK\$500,000, HK\$200,000 and HK\$1.5 million are intended to be used for the expansion of transportation technology solutions, development of freight logistics management systems, recruiting additional staff, and research and development activities respectively. The Group also plans to apply approximately HK\$2.2 million for the repayment of loan due to a related company, immediately upon the Company obtaining its listing status on the GEM.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

Period II: Six months ending 30 June, 2002

Transportation technology solutions	Freight logistics management information system	Resources, employment and administration	Research and development
<ol style="list-style-type: none"> 1. Complete system design for the auto-pass toll collection system on the Guangzhou Huanan Expressway. 2. Complete the Nian Bei Expressway project. 3. Complete the system design of transportation technology solutions for the 11 expressways in Guangdong province. 	<ol style="list-style-type: none"> 1. Complete the implementation of the logistics management system on one truck depot in Guangzhou. 	<ol style="list-style-type: none"> 1. Recruit one professional with strong backgrounds in logistics management. 	<ol style="list-style-type: none"> 1. Research on small-sized SDH system. 2. Develop “B & A Expressway Toll Collection System” on IBM AS/400 platform.

Use of proceeds

It is the Group’s present intention to apply approximately HK\$4.2 million of the net proceeds from the New Issue for the scheduled activities to be carried out during this period, of which approximately HK\$1.5 million, HK\$1.5 million, HK\$200,000 and HK\$1 million are intended to be used for the expansion of transportation technology solutions, development of freight logistics management systems, establishment of a software development centre and research and development activities, respectively.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

Period III: Six months ending 31 December, 2002

Transportation technology solutions	Freight logistics management information system	Resources, employment and administration	Research and development
1. Complete the auto-pass toll collection system on the Guangzhou Huanan Expressway.	1. Commence the deployment of the Guangzhou logistics management information system on other truck depots in Guangzhou.	1. Improve the Group's training facilities.	1. Research on the smart-card auto-despatch machine.

Use of proceeds

It is the Group's present intention to apply approximately HK\$4.5 million of the net proceeds from the New Issue for the scheduled activities to be carried out during this period, of which approximately HK\$1.5 million, HK\$1.5 million, HK\$500,000, and HK\$1 million are intended to be used for the expansion of transportation technology solutions, development of freight logistics management systems, resources, employment and administration, and research and development activities respectively.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

Period IV: Six months ending 30 June, 2003

Transportation technology solutions	Freight logistics management information system	Resources, employment and administration	Research and development
<ol style="list-style-type: none">1. Continue the business development activities from the last period.2. Implementation of the one-card-pass electronic toll collection technology on part of the expressway networks in Guangdong province.	<ol style="list-style-type: none">1. Complete the implementation of Guangzhou logistics management information system on most of the operating truck depots in Guangzhou.	<ol style="list-style-type: none">1. Establish a software development centre in Guangzhou, Guangdong province, the PRC.	<ol style="list-style-type: none">1. Research on national standards of expressway systems integration.

Use of proceeds

It is the Group's present intention to apply approximately HK\$7 million of the net proceeds from the New Issue for the scheduled activities to be carried out during the period, of which approximately HK\$2.0 million, HK\$2.5 million, HK\$1 million and HK\$1.5 million are intended to be used for the expansion of transportation technology solutions, development of freight logistics management system, employment and administrative expenses, and research and development activities, respectively.

BUSINESS OBJECTIVE AND IMPLEMENTATION PLANS

Period V: Six months ending 31 December, 2003

Transportation technology solutions	Freight logistics management information system	Resources, employment and administration	Research and development
1. Continue the business development activities from the last period.	1. Promote the logistics management information system in other major cities in Southern China.	1. Expand the software development department.	1. Research on the technology of automatic verification of vehicle registration numbers.
2. Complete system design for one-card-pass electronic toll collection technology on the expressway networks in Yunnan province.			

Use of proceeds

The Directors believe that the net proceeds from the New Issue will not be sufficient to finance the scheduled activities to be carried out during this period, which the Directors currently estimate may require an additional funding of approximately HK\$5 million to HK\$10 million, out of which, the Group intends to apply approximately HK\$2.5 million, HK\$1.5 million, HK\$0.5 million and HK\$1.5 million for the expansion of transportation technology solutions, development of freight logistics management systems, employment and administrative expenses, and research and development activities, respectively. The Directors also believe that, following the listing of the Shares on GEM, the Group will be able to finance such activities through bank financings or raising funds in the international capital and debt markets or through a combination of these methods.

BASES AND ASSUMPTIONS

General assumptions

The following sets out the general assumptions in relation to the Group's business plans for the current financial year and the two years ending 31 December, 2003:–

- there will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in the countries in which the Group operates;
- there will be no material changes in the bases or rates of taxation in those countries in which the Group operates or its subsidiaries are incorporated; and
- there will be no material changes in interest rates or foreign currency exchange rates that are currently prevailing.

Specific assumptions

The following sets out the specific assumptions used in relation to the Group's business plans for the current financial year and the two years ending 31 December, 2003:–

- the Group will not be affected by any of the risk factors set out in the section headed "Risk factors" in this prospectus;
- there will be a growing demand of the Group's transportation technology solutions in the PRC;
- the Group will be able to retain key personnel in the areas of system design and sales and marketing;
- there will be no significant adverse changes in the Group's business; and
- satisfactory feasibility study for the implementation of various projects during the relevant periods.

USE OF PROCEEDS FROM THE NEW ISSUE

The proceeds from the New Issue based on the Offer Price, after deducting related expenses, are estimated to be approximately HK\$27 million assuming that the Over-allotment Option is not exercised. If the Over-allotment Option is exercised in full, the proceeds from the New Issue, after deducting related expenses, are expected to increase to approximately HK\$33 million.

The Directors presently intend to apply such proceeds as follows:–

- approximately HK\$6.5 million for expansion and modification of the transportation technology solutions provided by the Group including enhancing the functions and service modules under the “B & A Expressway Toll Collection System” and modifying it to become a standard computer software product suitable for licensing to customers;
- approximately HK\$6 million for development and implementation of the Group’s freight logistics management information system in Guangdong province, the PRC;
- approximately HK\$5 million for undertaking research and development activities in respect of the Group’s transportation technology solutions and freight logistics management information system;
- approximately HK\$1.9 million for recruiting additional staff and establishing additional offices in the PRC with the objective of expanding the business of the Group in the PRC;
- approximately HK\$2.2 million for repayment of loan due to a related company; and
- the remaining balance of approximately HK\$5.4 million as general working capital of the Group.

Should the Over-allotment Option be exercised in full, the Directors intend to use such additional proceeds as general working capital of the Group.

To the extent that the proceeds from the New Issue are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term deposit with banks and/or financial institutions in Hong Kong.

Based on the bases and assumptions set forth in the section headed “Business objective and implementation plans” in this prospectus, the Directors expect that the net proceeds from the New Issue will be fully utilised by 30 June, 2003 and will not be sufficient to finance the planned and/or intended projects of the Group for the six months ending 31 December, 2003 as described in the section headed “Business objective and implementation plans” in this prospectus, which the Directors currently estimate an additional funding of between HK\$5 million and HK\$10 million may be required subject to achievement of all other respects of the business plans of the Group and the same bases and assumptions as stated in the section headed “Business objective and implementation plans” in this prospectus. The Directors believe that, following the listing of the Shares on GEM, the Group will be

USE OF PROCEEDS FROM THE NEW ISSUE

able to finance such projects through bank financings or raising funds in the capital and debt markets or through a combination of these methods.

In the event that any part of the business objective and the implementation plans of the Group does not materialise or proceed as planned, the Directors will evaluate such change in circumstances, if any, and may reallocate the intended funding out of the proceeds from the New Issue to other business plans and/or new projects and/or to place such funds on short-term deposit so long as the Directors consider such action to be in the best interests of the Company and the Shareholders as a whole. In such event, the Company will make a separate announcement as required by the GEM Listing Rules.

UNDERWRITING

UNDERWRITERS

DBS Asia Capital Limited
CSC Securities (HK) Limited
Guotai Junan Securities (Hong Kong) Limited
SBI E2-Capital Securities Limited
Barits Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting agreement

Pursuant to the Underwriting Agreement, the Company is offering the New Shares for subscription and the Vendors are offering the Sale Shares for sale by way of the Placing with professional, institutional and individual investors, in each case, at the Offer Price. Subject to, among other conditions, the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on or before 21 September, 2001 (or such later date as DBS Asia on behalf of the Underwriters may in its absolute discretion determine), the Underwriters have severally agreed to subscribe for or purchase or procure subscribers or purchasers of the Placing Shares on and subject to the terms and conditions of the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe for or purchase or procure subscribers or purchasers of the Placing Shares are several, not joint and several, and are subject to termination, and DBS Asia (acting on behalf of the Underwriters) has the absolute right upon giving notice to the Company to terminate the Underwriting Agreement with immediate effect if certain events, including but not limited to the following, shall occur at any time prior to 6:00 p.m. on the day immediately preceding the date on which dealings in Shares on GEM commence:-

- (a) any breach of any of the warranties or any other provision of the Underwriting Agreement which is considered in the reasonable opinion of DBS Asia to be material in the context of the Placing;
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of DBS Asia in the context of the Placing;
- (c) any statement contained in this prospectus reasonably considered to be material by DBS Asia is discovered to be or becomes untrue, incorrect or misleading in any respect considered to be material to the Placing;

UNDERWRITING

- (d) any event, act or omission which gives rise to any liability of the Company or any of the Directors or the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement;
- (e) any adverse change in the business or the financial or trading position of the Group or otherwise which is considered in the sole opinion of DBS Asia to be material in the context of the Placing; and
- (f) any event or series of events, matters or circumstances concerning or relating to:–
 - (i) any material change in Hong Kong, the Cayman Islands, the BVI, the PRC or any other relevant jurisdiction, local, national or financial, political, economic, military, industry, fiscal, regulatory or stock market conditions; or
 - (ii) any new law or material change in existing laws or any material change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the Cayman Islands, the BVI, the PRC or any other relevant jurisdiction; or
 - (iii) any event of force majeure affecting Hong Kong, the Cayman Islands, the BVI, the PRC or any other relevant jurisdiction including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or
 - (iv) the conditions of the Hong Kong equity securities or other financial markets; or
 - (v) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (vi) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof,

UNDERWRITING

which, in the reasonable opinion of DBS Asia:–

- (a) is or will be materially adverse to the business, financial or other condition or prospects of the Group; or
- (b) makes it inadvisable or inexpedient to proceed with the Placing; or
- (c) has the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms.

Commission and expenses

The Underwriters will receive a total commission of 4.0 per cent. on the Placing of all the Placing Shares (out of which each Underwriter will pay its own sub-underwriting commissions and selling concessions). Such commission (based on the Offer Price of HK\$0.70 per Placing Share), together with the Stock Exchange listing fees, legal and other professional fees, printing and other expenses relating to the Placing, and stamp duty relating to the transfer of shares pursuant to the Reorganisation, which are estimated to amount in aggregate to approximately HK\$10 million (assuming the Over-allotment Option is not exercised) are payable as to 79.4 per cent. by the Company and as to 20.6 per cent. by the Vendors.

SPONSOR'S AGREEMENT

Under a sponsor's agreement (the "Sponsor Agreement") dated 21 August, 2001 and entered into between DBS Asia and the Company, the Company appoints DBS Asia and DBS Asia agrees to act as the sponsor of the Company for the purpose of the GEM Listing Rules for a fee from the date on which dealings in the Shares on GEM commence to 31 December, 2003 or until the Sponsor Agreement is otherwise terminated upon the terms and conditions set out therein.

SPONSOR'S AND UNDERWRITERS' INTERESTS IN THE COMPANY

Save for (i) the obligations of the Underwriters under the Underwriting Agreement; (ii) the advisory and documentation fee payable to DBS Asia as sponsor of the Placing; and (iii) the interests of DBS Asia under the Sponsor's Agreement, none of DBS Asia and other Underwriters has any shareholding interests in the Group nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group nor any interest in the Placing.

UNDERWRITING

No director or employee of DBS Asia 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 member of the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

Save as disclosed above, neither DBS Asia 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.

No director or employee of DBS Asia has a directorship in the Company or any member of the Group.

STRUCTURE AND CONDITIONS OF THE PLACING

OFFER PRICE

The Offer Price of HK\$0.70 per Share plus one per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy thereon amount to HK\$2,828.28 per board lot of 4,000 Shares.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares is conditional on: –

- (1) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus; and
- (2) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

If such conditions have not been fulfilled or waived on or before 21 September, 2001, the Placing will lapse and the Stock Exchange will be notified immediately.

The Placing

The Placing comprises 50,000,000 New Shares offered by the Company for subscription and 13,000,000 Sale Shares offered for sale by the Vendors, in each case, at the Offer Price. The number of the Placing Shares (excluding any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) represents 35 per cent. of the enlarged issued share capital of the Company. The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

The Placing Shares will be placed with selected professional, institutional and individual investors. Professional and institutional investors generally include brokers, dealers and 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.

Allocation of Placing Shares to professional, institutional and other 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 investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

STRUCTURE AND CONDITIONS OF THE PLACING

OVER-ALLOTMENT OPTION

In connection with the Placing, the Company has granted to the Underwriters the Over-allotment Option (exercisable by DBS Asia on behalf of the Underwriters) from time to time during the period of 30 days from the date of this prospectus. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 9,450,000 additional Shares, representing 15 per cent. of the Shares initially available under the Placing, to cover over-allocations in the Placing, if any. In order to facilitate settlement of over-allocations in the Placing pending exercise of the Over-allotment Option, the Stock Borrowing Agreement has also been entered into between Sebastian, Mr. Yan and DBS Asia.

Pursuant to the Stock Borrowing Agreement, Sebastian has agreed that, if so requested by DBS Asia, it will lend to DBS Asia up to 9,450,000 Shares on the following terms: –

- (1) the borrowed Shares will only be used to settle over-allocation in the Placing, and
- (2) the same number of Shares must be returned to Sebastian, no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised or (ii) the day on which the Over-allotment Option is exercised in full.

No payments or any other benefits will be made to Sebastian and/or Mr. Yan by DBS Asia in relation to the stock borrowing arrangement under the Stock Borrowing Agreement.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Mr. Yan and Sebastian for the period of two years from the date on which dealings in the Shares on GEM commence in order to allow Sebastian and Mr. Yan to enter into the Stock Borrowing Agreement. Particulars of such waiver are set forth in the section headed “Waivers from strict compliance with the GEM Listing Rules” in this prospectus. DBS Asia 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 purchase will be made in compliance with all applicable laws, rules and regulations.

If the Over-allotment Option is exercised in full, the total Placing Shares issued will represent approximately 38.2 per cent. of the enlarged issued share capital of the Company immediately after completion of the Placing and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, the Company will make an announcement to be published on the GEM Website.

STABILISATION

In connection with the Placing, DBS Asia may, on behalf of the Underwriters, over-allocate and/or effect transactions which stabilise or maintain the market price of the Shares at levels other

STRUCTURE AND CONDITIONS OF THE PLACING

than those which might otherwise prevail. The number of Shares that may be over-allocated will be no greater than the number of Shares that may be issued under the Over-allotment Option. Such stabilisation transactions will be effected in compliance with all applicable laws and regulatory requirements. Such stabilisation transactions, if commenced, may be discontinued at any time. Should stabilisation transactions be effected in connection with the distribution of Shares, they will be done so at the absolute discretion of DBS Asia.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. The stabilisation price to cover over-allocations will not exceed the offer prices.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an 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.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on GEM, as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

In respect of dealings in the Shares which may be settled through CCASS, 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.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong:—

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong

22 August, 2001

The Directors
Angels Transport Technology Company Limited
DBS Asia Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding Angels Transport Technology Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001 (the “Relevant Period”) for inclusion in the prospectus of the Company dated 22 August, 2001 (the “Prospectus”) in connection with the listing of the shares of the Company on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 7 April, 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”), as detailed in the section “Corporate Reorganisation” in Appendix IV of the Prospectus, which was completed on 16 August, 2001, the Company became the holding company of the subsidiaries set out below.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are private companies. Details of these companies are as follows:–

Company	Place and date of incorporation / establishment	Authorised /registered capital	Issued and fully paid up capital	Attributable equity interest %	Principal activities
Shares held directly:					
Angels Intelligent Transportation Systems Company Limited ("Angels Transport")	British Virgin Islands 10 January, 2000	Ordinary HK\$10,000,000	Ordinary HK\$9,041,767	100	Investment holding
Angels Logistics Systems (Guangzhou) Company Limited ("Angels Logistics")	British Virgin Islands 10 January, 2000	Ordinary HK\$5,000,000	Ordinary HK\$903,000	100	Investment holding
Shares held indirectly:					
Angels Engineering Technology Limited ("Angels Technology")	Hong Kong 26 April, 2000	Ordinary HK\$10,000	Ordinary HK\$10,000	100	Provision of management services to group companies
Angels ITS (Guangzhou) Co., Ltd. ("Guangzhou Angels")	The People's Republic of China (the "PRC") 27 April, 2000	US\$600,000	US\$100,000	100	Provision of freight logistics management information system services
Beijing Angels Communications Technology Co., Ltd. ("Beijing Angels")	The PRC 5 January, 1996 (Note*)	RMB1,660,000	RMB1,660,000	100	Provision of transportation technology solution

*Note**: Beijing Angels was established on 5 January, 1996 as a limited liability in the PRC. It was converted into a wholly foreign-owned enterprise on 30 March, 2000.

All companies comprising the Group have adopted 31 December as their financial year end date.

No audited accounts have been prepared for the Company, Angels Technology, Angels Transport and Angels Logistics since their respective dates of incorporation as they are newly incorporated and have not been involved in any significant business transactions since incorporation other than the Reorganisation referred to herein.

The accounts of Beijing Angels and Guangzhou Angels for the Relevant Period and for the period from 27 April, 2000 to 31 March, 2001 respectively were prepared in accordance with applicable accounting principles and relevant financial regulations in the PRC. The statutory auditors of Beijing Angels for the two years ended 31 December, 2000 were Topson Certified Public Accountants Beijing. The statutory auditors of Guangzhou Angels for the period from 27 April, 2000 to 31 December, 2000 was Guangdong Qimingxing Certified Public Accountants Co., Ltd. For the purpose of this report, we have carried out independent audits of the accounts of Beijing Angels and Guangzhou Angels for the Relevant Period and for the period from 27 April, 2000 to 31 March, 2001 respectively in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the "HKSA"), and have carried out such additional procedures we consider necessary.

For the purpose of this report, we have examined the audited accounts or, where appropriate, management accounts of all companies comprising the Group for the Relevant Period and have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" issued by the Hong Kong Society of Accountants.

The summaries of the combined results of the Group for the Relevant Period and of the combined net tangible assets of the Group as at 31 March, 2001 (the "Summaries") as set out in this report, have been prepared based on the audited accounts or, where appropriate, management accounts of all companies comprising the Group, on the basis set out in note 1 below, after making such adjustments as are appropriate. The directors of the respective companies of the Group are responsible for preparing these accounts, which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are also responsible for the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries set out below together with the notes thereto, for the purpose of this report and prepared on the basis set out in note 1 below, give a true and fair view of the combined results of the Group for the Relevant Period and of the combined net tangible assets of the Group as at 31 March, 2001.

1. BASIS OF PRESENTATION

The summary of the combined results of the Group for the Relevant Period and the combined net tangible assets as at 31 March, 2001 have been prepared as if the Company had wholly owned each subsidiary throughout the Relevant Period, or since their respective dates of incorporation, whichever is the shorter period except for Beijing Angels. The Group held 65% interests in Beijing Angels for the period from 1 January, 1999 to 18 February, 2000 and the Group increased its interests in Beijing Angels from 65% to 100% on 18 February, 2000. Accordingly, the minority interests in Beijing Angels for the period from 1 January, 1999 to 18 February, 2000, have been recognised in the Summaries.

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

2. PRINCIPAL ACCOUNTING POLICIES

The financial information in this report is prepared under the historical cost convention. The principal accounting policies which have been adopted in arriving at the financial information in this report are set out below. These policies conform with Statements of Standard Accounting Practices issued by the HKSA and accounting principles generally accepted in Hong Kong.

(a) Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of the board of directors.

(b) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. They are depreciated at rates sufficient to write off their cost over their expected useful lives to the Group on a straight-line basis. The principal annual rates are as follows:–

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	20%
Motor vehicles	16%

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. The amount of the reduction to recoverable amount is charged to the combined results. Expected future cash flows have not been discounted in determining the recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the combined results.

Major costs incurred in restoring fixed assets to their normal working conditions are charged to the combined results. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(c) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the combined results.

(d) Long-term systems integration contracts

Revenue from long-term systems integration contracts comprises the agreed contract amount and appropriate amounts from variation orders and claims, if any. Contract costs incurred comprise direct materials, direct labour and an appropriate proportion of variable and fixed overheads.

When the outcome of a system integration contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue. When the outcome of a system integration contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as gross amounts due from customers for contract works. Where progress billings exceed contract cost incurred to date plus recognised profits less recognised losses, the surplus is treated as gross amounts due to customers for contract works.

(e) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the summary of the combined net tangible assets are stated net of such provision.

(f) Revenue recognition

- (i) Revenue from long-term systems integration contracts is recognised on the percentage of completion method measured by reference to the percentage of costs incurred to date to the estimated total costs for each contract.
- (ii) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and titles have passed.
- (iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) Research and development costs

Costs incurred in the research and development by the Group are expensed as incurred, unless it is expected that the related product under development will be profitable and will be produced and its technical feasibility has been demonstrated. During the Relevant Period, all research and development costs have been expensed.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases, net of any incentives received from the leasing company, are charged to the combined results on a straight-line basis over the lease term.

(i) Translation of foreign currencies

Translation in foreign currencies are translated into Hong Kong dollar at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are incorporated into the accounts by translating foreign currencies into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the combined results.

The accounts of subsidiaries expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereon are dealt with as a movement in reserves.

(j) Retirement benefit costs

The subsidiaries of the Company in Hong Kong and the PRC are required to make contributions for their employees to retirement schemes managed by relevant local authorities in accordance with their rules and regulations. Contributions to these retirement schemes are charged to the combined results in the year in which they are incurred.

3. RESULTS

The following is a summary of the combined results of the Group for the Relevant Period, prepared on the basis set out in note 1 above, after making such adjustments as are appropriate:–

		Year ended		Three
		31 December,		months ended
		1999	2000	31 March,
	Notes	HK\$'000	HK\$'000	2001
				HK\$'000
Turnover	(a)	25,254	47,080	1,718
Cost of services		<u>(16,789)</u>	<u>(25,270)</u>	<u>(1,380)</u>
Gross profit		8,465	21,810	338
Other revenue	(a)	11	36	6
Distribution costs		(1,360)	(1,608)	(436)
Administrative expenses		<u>(3,611)</u>	<u>(7,703)</u>	<u>(2,105)</u>
Operating profit/(loss)	(b)	3,505	12,535	(2,197)
Taxation	(c)	<u>(65)</u>	<u>–</u>	<u>–</u>
Profit/(loss) after taxation		3,440	12,535	(2,197)
Minority interests		<u>(1,204)</u>	<u>(292)</u>	<u>–</u>
Combined profit/(loss) for the year/period		<u><u>2,236</u></u>	<u><u>12,243</u></u>	<u><u>(2,197)</u></u>
Dividends	(d)	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

Notes:–

(a) Revenue and turnover

	Year ended 31 December,		Three months ended 31 March,
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Turnover			
Revenue from long-term systems integration contracts	25,254	47,080	1,718
Other revenue			
Interest income	11	36	6
Total revenue	<u>25,265</u>	<u>47,116</u>	<u>1,724</u>

Turnover represents total value of services rendered to customers net of value-added tax and sales tax.

The Group is principally engaged in the provision of transportation technology solution for the Relevant Period which is carried out in the PRC.

(b) Operating profit/(loss)

Operating profit/(loss) is stated after charging the following:–

	Year ended 31 December,		Three months ended 31 March,
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Auditors' remuneration	10	35	20
Depreciation of fixed assets	525	536	154
Loss on disposal of fixed assets	–	54	–
Operating lease rentals in respect of land and buildings	413	1,108	294
Provision for doubtful debts	–	1,500	–
Staff costs included in:–			
– cost of services	1,143	1,588	217
– administrative expenses	1,912	3,149	1,249

(c) Taxation

The taxation charge comprises:–

		Year ended 31 December,		Three months ended 31 March,
		1999 HK\$'000	2000 HK\$'000	2001 HK\$'000
Hong Kong profits tax	(i)	–	–	–
PRC income tax				
– Current	(ii)	65	–	–
		<u>65</u>	<u>–</u>	<u>–</u>

- (i) No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the Relevant Period.

- (ii) The PRC income tax represents taxation charged on the assessable profits of a subsidiary operating in the PRC calculated at the applicable rate.

The subsidiary, Beijing Angels, operating in the PRC, is subject to an income tax rate of 33 per cent. on its taxable profit in accordance with the income tax law in the PRC. Pursuant to a notice dated 1 February, 1996 issued by 北京市海澱區地方稅務局 (Local Taxation Bureau of Beijing Haidian District), the subsidiary is eligible for the High and New Technology Enterprise status and hence the applicable income tax rate was reduced to 15 per cent.. The notice also stated that the subsidiary is entitled to full exemption from PRC income tax from the years 1996 to 1998 followed by a 50 per cent. reduction in the income tax rate (i.e. 7.5 per cent.) for the years from 1999 to 2001. A taxation charge of HK\$65,000 was paid in 1999 at the reduced tax rate of 7.5 per cent. Subsequently, a renewal notice was issued by 北京市海澱區國家稅務局 (State Taxation Bureau of Beijing Haidian District) on 14 November, 2000 to extend the tax holiday of the subsidiary. The subsidiary is now entitled to full exemption from PRC income tax from the years 2000 to 2002 followed by a 50 per cent. reduction in the income tax rate (i.e. 7.5 per cent.) for the years from 2003 to 2005.

- (iii) There was no material unprovided deferred taxation during the Relevant Period.

(d) Dividends

No dividends have been paid or declared by the Company or its subsidiaries during the Relevant Period.

(e) Earnings per share

No earning per share figure is presented as its inclusion is not considered meaningful due to the preparation of the results for the Relevant Period on a combined basis as disclosed in note 1 above.

(f) Emoluments for directors and highest paid individuals

- (i) The directors of the Company were members of the senior management of the Group throughout the Relevant Period. Assuming these existing directors had already been appointed as directors at the beginning of the Relevant Period, details of the emoluments paid and payable to the directors of the Company during the Relevant Period would have been as follows:–

	Year ended		Three
	31 December,		months ended
	1999	2000	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	–	–	–
Basic salaries and allowances	150	1,112	282
Bonuses	205	–	–
Retirement scheme contribution	6	11	15
	<u>361</u>	<u>1,123</u>	<u>297</u>

Each of the four executive directors of the Company received emoluments of approximately HK\$131,000, HK\$105,000, HK\$125,000 and HK\$Nil respectively for the year ended 31 December, 1999, approximately HK\$461,000, HK\$378,000, HK\$136,000 and HK\$148,000 respectively for the year ended 31 December, 2000 and approximately HK\$110,000, HK\$112,000, HK\$28,000 and HK\$47,000 respectively for the three months ended 31 March, 2001.

(ii) The five individuals whose emoluments were the highest in the Group are as follows:–

	Number of individuals		
	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
Directors	3	3	3
Non-directors	2	2	2
	<u>5</u>	<u>5</u>	<u>5</u>

(iii) Details of the emoluments of non-directors as mentioned above are as follows:–

	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
	HK\$'000	HK\$'000	HK\$'000
Basic salaries and allowances	101	664	186
Bonuses	82	–	–
Pension scheme contribution	5	3	10
	<u>188</u>	<u>667</u>	<u>196</u>

The emoluments of non-directors fall within the following bands:–

	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
	Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

(iv) During the Relevant Period, no directors or any of the five highest paid individuals of the Company waived any emolument and no emoluments have been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join the Group, or as compensation for loss of office.

(g) Retirement benefit costs

The Company did not contribute to any provident fund scheme for its employees during the Relevant Period.

During the Relevant Period, the subsidiaries operating in Hong Kong and the PRC participated in defined contribution retirement schemes. Contributions were made to the retirement schemes at rates ranging from 5% to 15% on the monthly basic salary of their directors and employees, and there is no other further obligations to the Group during the Relevant Period. The Group's contributions during the Relevant Period are as follows:–

	Year ended 31 December,		Three months ended
	1999	2000	31 March, 2001
	HK\$'000	HK\$'000	HK\$'000
Contributions made	<u>82</u>	<u>78</u>	<u>52</u>

No contributions have been forfeited during the Relevant Period.

(h) Related party transactions and balances

The Group entered into the following material transactions with related companies and directors of the Company:—

- (i) On 1 March, 2000, the Group disposed of its leasehold land and buildings including certain furniture, fixtures and equipment with a net book value of HK\$2,002,000 to a director of the Company, Mr. Yan, Daniel X.D., at a consideration of HK\$1,963,000. DTZ Debenham Tie Leung Limited, an independent property valuer, was of the opinion that the consideration was reasonable and in line with the market value of the property.
- (ii) During the two years ended 31 December, 2000 and the three months ended 31 March, 2001, the Group received advances from directors of the Company, Mr. Yan, Daniel X.D. and Mr. Lau, Andrew Kim. The amounts due for the two years ended 31 December, 2000 and the three months ended 31 March, 2001 were HK\$2,340,000, HK\$4,863,000 and HK\$6,386,000 respectively. The amounts are unsecured, interest-free and were capitalised before the listing of the Company on the GEM of the Stock Exchange.
- (iii) During the year ended 31 December, 2000, the Group received advances of HK\$2,160,000 from a related company, Angels Investments Consultants Limited, which is beneficially owned by a director of the Company, Mr. Yan, Daniel X.D.. The amount is unsecured, interest-free and will be settled using the proceeds from the listing of the Company on the GEM of the Stock Exchange.
- (iv) On 23 December, 1999, Beijing Angels, 慎豐化工建材（深圳）有限公司 (Shenfeng Chemical Construction Materials (Shenzhen) Company Limited) (the “Creditor”) and Mr. Yan, Daniel X.D. entered into an agreement whereby Beijing Angels novated to Mr. Yan, Daniel X.D. a debt in the sum of RMB800,000 owed by it to the Creditor for the consideration of RMB800,000 and Mr. Yan, Daniel X.D. accepted the liability to repay such sum to the Creditor. Such amount was transferred from trade payables and recorded as an advance from Mr. Yan, Daniel X.D. to Beijing Angels on 23 December, 1999

In the opinion of the directors of the Company, the related party transactions mentioned above were carried out in the ordinary course of business of the Group. The directors of the Company are of the opinion that the related party transaction mentioned in (i) above was also carried out on the normal commercial terms of business of the Group.

The directors of the Company have confirmed that all the transactions listed above will not continue subsequent to the successful listing of the Company's shares on the GEM of the Stock Exchange.

4. NET TANGIBLE ASSETS

The following is a summary of the combined net tangible assets of the Group as at 31 March, 2001 prepared on the basis set out in note 1 above, after making such adjustments as are appropriate:–

	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	<i>(a)</i>		2,388
Investment securities			467
Current assets			
Amounts due from customers for contract works	<i>(b)</i>	22,294	
Trade receivables		3,368	
Deposits and other receivables		3,624	
Cash and bank balances	<i>(c)</i>	247	
		<u>29,533</u>	

		29,533	
Current liabilities			
Receipt in advance	<i>(b)</i>	160	
Trade payables		6,126	
Accrued charges and other payables		3,368	
Due to a related company	<i>(d)</i>	2,160	
Due to directors	<i>(e)</i>	6,386	
		<u>18,200</u>	

		18,200	
Net current assets			<u>11,333</u>
Net tangible assets			<u><u>14,188</u></u>

Notes:–

(a) Fixed assets

	At cost <i>HK\$'000</i>	Accumulated depreciation <i>HK\$'000</i>	Net book value <i>HK\$'000</i>
Leasehold improvements	496	25	471
Furniture, fixtures and office equipment	588	172	416
Computer equipment	666	215	451
Motor vehicles	2,186	1,136	1,050
	<u>3,936</u>	<u>1,548</u>	<u>2,388</u>

(b) Amounts due from customers for contract works

	<i>HK\$'000</i>
Contracts in progress at the balance sheet date:	
Costs incurred to date plus recognised profits to date	50,994
Less: progress billing	<u>(28,700)</u>
	<u>22,294</u>
Represented by:	
Gross amounts due from customers for contract works	22,294
Gross amounts due to customers for contract works	<u>–</u>
	<u>22,294</u>

As at 31 March, 2001, there were no retention monies included in the amounts due from customers for contract works and there was an advance of HK\$160,000 received from customers for contract works.

(c) Cash and bank balances

As at 31 March, 2001, RMB115,000 (equivalent to HK\$107,000) of the Group's cash and bank balances were denominated in Renminbi and deposited with banks in the PRC. The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

(d) Due to a related company

The amount is unsecured, interest free and will be settled using the proceeds from the listing of the Company on the GEM of the Stock Exchange.

(e) Due to directors

The amounts are unsecured, interest free and were capitalised before the listing of the Company on the GEM of the Stock Exchange.

(f) Reserves

Movements in reserves during the Relevant Period are as follows:–

	Statutory common reserve Note (i) HK\$'000	Capital reserve Note (iii) HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 January, 1999	912	–	(1,301)	(389)
Combined profit for the year	–	–	2,236	2,236
As at 31 December 1999	<u>912</u>	<u>–</u>	<u>935</u>	<u>1,847</u>
As at 1 January, 2000	912	–	935	1,847
Combined profit for the year	–	–	12,243	12,243
Acquisition of minority interests	–	491	–	491
As at 31 December, 2000	<u>912</u>	<u>491</u>	<u>13,178</u>	<u>14,581</u>
As at 1 January, 2001	912	491	13,178	14,581
Combined loss for the period	–	–	(2,197)	(2,197)
As at 31 March, 2001	912	491	10,981	12,384
Adjustment arising from combination (<i>Note (ii)</i>)	–	–	–	(1,456)
	<u>912</u>	<u>491</u>	<u>10,981</u>	<u>10,928</u>

Notes:–

- (i) The statutory common reserve is set up by the subsidiary, Beijing Angels, established and operated in the PRC, by way of appropriation of 10% of its profit after taxation in accordance with the relevant laws and regulations in the PRC. The transfer to the statutory common reserve is required until it aggregates to 50 per cent. of the registered capital of the subsidiary. The statutory common reserve can be used to make good previous years' losses or to increase capital. For the two years ended 31 December, 2000 and the three months ended 31 March, 2001, no appropriation of profit was made as Beijing Angels did not generate any profit in accordance with the relevant laws and regulations in the PRC.
- (ii) The adjustment represents the excess of cash consideration over the fair values ascribed to the net assets of Beijing Angels, which arised upon the acquisition of Beijing Angels by the Group, as a result of the Summaries being prepared on a combined basis.
- (iii) The capital reserve arises from the acquisition of the remaining minority interests of Beijing Angels on 18 February, 2000.
- (iv) The above reserves have been prepared on a combined basis as if the current group structure had been in existence throughout the Relevant Period except that the minority interests during the Relevant Period have been recognised. If the financial statements have been accounted for on an acquisition basis, an amount of approximately HK\$1,418,000 would have been recognised as pre-acquisition reserve.

(g) Net tangible assets of the Company

The Company was incorporated in the Cayman Islands on 7 April, 2000. The net tangible assets of the Company as at 31 March, 2001 prepared on the basis set out in Section 1 above, amounted to approximately HK\$14 million and were represented by investments in subsidiaries.

(h) Distributable reserves

The Company was incorporated on 7 April, 2000 and remained inactive, and hence, there was no reserve available for distribution to shareholders as at 31 March, 2001.

(i) Commitments*(i) Commitments under operating leases*

As at 31 March, 2001, the Group had future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:–

	<i>HK\$'000</i>
Operating leases which expire:–	
– Within one year	1,010
– In the second to fifth year inclusive	1,528
– After the fifth year	20
	2,558
	2,558

(ii) Other commitments

As at 31 March, 2001, the Group had commitments in respect of purchasing of raw materials, which were contracted but not provided for, amounting to HK\$7,497,000.

(j) Contingent liabilities

As at 31 March, 2001, the Group had no material contingent liabilities.

5. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 March, 2001:–

- (a) Subsequent to 31 March, 2001, the companies now comprising the Group underwent the Reorganisation in preparation for the listing of the shares of the Company on the GEM of the Stock Exchange. Details of the Reorganisation and alterations in the share capital of the Company are set out in the section “Corporate reorganisation” and “Changes in share capital of the Company and its subsidiaries” respectively in Appendix IV of the Prospectus.
- (b) Subsequent to 31 March, 2001, the amounts due to directors of approximately HK\$6,386,000 as at 31 March, 2001 were capitalised before the listing of the Company on the GEM of the Stock Exchange.

Save as aforesaid, no other material events took place subsequent to 31 March, 2001.

6. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 December, 2000. In addition, no dividend has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 March, 2001.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter, a summary of valuations and valuation certificate, prepared for the purpose of incorporation in this prospectus, received from DTZ Debenham Tie Leung Limited, the independent property valuer, in connection with their valuations as at 30 June, 2001 of the property interests held by the Group:—



Formerly C Y Leung & Company

原梁振英測量師行

22 August, 2001

The Directors
Angels Transport Technology Company Limited
Unit No. 2210 on 22nd Floor,
West Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by Angels Transport Technology Company Limited (the “Company”) or its subsidiaries (hereinafter together referred to as the “Group”) in Hong Kong and the People's Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 30 June, 2001 (the “date of valuation”).

Our valuation of each of the property interests is our opinion of the open market value which we would define as intended to mean “the best price at which the sale of an interest in a property might reasonably be expected to 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 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 Group sells the property interests on the open market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the values of such property interests.

In valuing the property interests, we have assumed that the grantees or the users of the properties have free and uninterrupted right to use or to assign the properties for the whole of the unexpired term as granted. In respect of the properties in the PRC, we have further assumed that transferable land use rights in respect of the respective properties for respective specific terms at nominal land use fees have been granted and that any premium payable has already been fully paid. We have relied on the advice given by the Group regarding the title to each of the property interests and the interests of the Group in the properties. For the purpose of our valuations, we have assumed that the Group has enforceable title to the property interests.

Properties in Groups I and II which are rented by the Group in Hong Kong and the PRC respectively have no commercial value due to the prohibition against assignment of the properties or otherwise due to the lack of substantial profit rents.

We have been provided by the Group with copies of tenancy agreements in relation to the property interests situated in Hong Kong and the PRC. However, we have not been able to search the original documents to verify the ownership of the property interests or to ascertain any amendments. We have relied to a very considerable extent on the information given by the Group or other related parties and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, particulars of occupancy, tenancy agreements, building specifications, floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate as attached are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us which is material to the valuations. We were also advised that no material facts have been omitted from the information supplied.

We have inspected the exterior and, where possible, the interior of each of the properties. However, no structural survey have been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or other structural defects. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the property interests 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 any onerous nature which could affect their values.

Unless otherwise stated, all money amounts stated in our valuations are in Hong Kong dollars. The exchange rates adopted in our valuations of the properties in the PRC are approximately US\$1=HK\$7.8 and HK\$1=RMB1.07 which were the approximate exchange rates prevailing as at the date of valuation and there has been no significant fluctuation in such rates between that date and the date of this letter.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong

Registered Professional Surveyor

(General Practice Division)

M.R.I.C.S., A.H.K.I.S.

Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has over 16 and 10 years' experience in the valuation of properties in Hong Kong and the PRC respectively.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 30 June, 2001 HK\$
Group I – Property interest rented by the Group in Hong Kong	
1. Unit No. 2210 on 22nd Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong	No commercial value
Group II – Property interests rented by the Group in the PRC	
2. Unit 1, No. 402, 4th Level, Block No. 8, Babaozhuang Small District, Haidian District, Beijing	No commercial value
3. The 3rd Level, Block No. 6#-C, Zhongyu Business Garden, 42 Fucheng Road, Haidian District, Beijing	No commercial value
4. Unit No. 302 on the 4th Level and Unit No. 603 on the 5th Level, Zone B, Taipingqiao Industry and Trading Group Small District, Fengtai District, Beijing	No commercial value
5. Unit No. 406, 4th Level, Ditie Building, 58 Jianzhong Road, Tianhe District, Guangzhou, Guangdong Province	No commercial value

Property	Capital value in existing state as at 30 June, 2001 HK\$
6. Unit No. 402, 4th Level, 1st Staircase, Block No. 2, Xin Jing Yuan, Tangshi Road, Tianhe District, Guangzhou, Guangdong Province	No commercial value
7. Unit No. 201, 2nd Level, Block No. 116-3, Bailong Small District, Longan Lane, Guandu District, Kunming, Yunnan Province	No commercial value
8. Unit No. 501, 5th Level, Block No. 130-1, Bailong Small District Longtai Lane, Guandu District, Kunming, Yunnan Province	No commercial value
Total:	<hr/> No commercial value <hr/> <hr/>

VALUATION CERTIFICATE

Group I – Property interest rented by the Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at 30 June, 2001
1. Unit No. 2210 on 22nd Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong	<p>The property comprises an office unit on the 22nd floor of a 30-storey commercial building erected upon a common podium completed in 1986.</p> <p>The property has a saleable area of approximately 101.54 sq.m. (1,093 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased to the Group for a term of 1 year from 25 August, 2000 to 24 August, 2001 at a monthly rent of HK\$29,442, exclusive of rates, management fee and air-conditioning charges.</p>	No commercial value

Group II – Property interests rented by the Group in the PRC

2. Unit 1, No. 402, 4th Level, Block No. 8, Babaozhuang Small District, Haidian District, Beijing	<p>The property comprises a residential unit on the 4th level of a 6-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 70 sq.m. (753 sq.ft.) and is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group for a term of 1 year and 1 day from 10 October, 2000 to 10 October, 2001 at a monthly rent of RMB2,200, exclusive of management fees and utilities charges.</p>	No commercial value
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Property	Description and tenancy particulars	Capital value in existing state as at 30 June, 2001
<p>3. The 3rd Level, Block No. 6#-C, Zhongyu Business Garden, 42 Fucheng Road, Haidian District, Beijing</p>	<p>The property comprises the 3rd level of a 4-storey building completed in 2000.</p> <p>The property has a total gross floor area of approximately 886 sq.m. (9,537 sq.ft.) and is currently occupied by the Group as offices.</p> <p>The property is currently leased to the Group for a term of 3 years from 7 August, 2000 to 6 August, 2003 at an annual rent of RMB808,475, exclusive of management fees and utilities charges.</p>	No commercial value
<p>4. Unit No. 302 on the 4th Level and Unit No. 603 on the 5th Level, Zone B, Taipingqiao Industry and Trading Corporation Small District, Fengtai District, Beijing</p>	<p>The property comprises a residential unit on each of the 4th and 5th levels of a 6-storey residential building completed in 2000.</p> <p>The property has a total gross floor area of approximately 130 sq.m. (1,399 sq.ft.) and is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group for a term of 1 year and 1 day from 11 June, 2001 to 11 June, 2002 at a total monthly rent of RMB2,750, exclusive of management fees and utilities charges.</p>	No commercial value

Property	Description and tenancy particulars	Capital value in existing state as at 30 June, 2001
5. Unit No. 406, 4th Level, Ditie Building, 58 Jianzhong Road, Tianhe District, Guangzhou, Guangdong Province	<p>The property comprises an office unit on the 4th level of a 5-storey office building completed in 1997.</p> <p>The property has a gross floor area of approximately 303.17 sq.m. (3,263 sq.ft.) and is currently occupied by the Group as an office.</p> <p>The property is currently leased to the Group for a term from 1 June, 2000 to 30 July, 2008 at a monthly rent of RMB5,457, exclusive of management fees and utilities charges.</p>	No commercial value
6. Unit No. 402, 4th Level, 1st Staircase, Block No. 2, Xinjingyuan, Tangshi Road, Tianhe District, Guangzhou, Guangdong Province	<p>The property comprises a residential unit on the 4th level of a 9-storey residential building completed in 1999.</p> <p>The property has a gross floor area of approximately 51.22 sq.m. (551 sq.ft.) and is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group for a term from 16 August, 2000 to 31 December, 2002 at a monthly rent of RMB563.42, exclusive of management fees and utilities charges.</p>	No commercial value

Property	Description and tenancy particulars	Capital value in existing state as at 30 June, 2001
<p>7. Unit No. 201, 2nd Level, Block No. 116-3, Bailong Small District, Longan Lane, Guandu District, Kunming, Yunnan Province</p>	<p>The property comprises a residential unit on the 2nd level of a 7-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 124.40 sq.m. (1,339 sq.ft.) and is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group for a term from 11 October, 2000 to 11 October, 2003 at a monthly rent of RMB1,400, exclusive of management fees and utilities charges.</p>	No commercial value
<p>8. Unit No. 501, 5th Level, Block No. 130-1 Bailong Small District, Longtai Lane, Guandu District, Kunming, Yunnan Province</p>	<p>The property comprises a residential unit on the 5th Level of a 7-storey residential building completed in 1995.</p> <p>The property has a gross floor area of approximately 93.40 sq.m. (1,005 sq.ft.) and is currently occupied by the Group as staff quarters.</p> <p>The property is currently leased to the Group from a term from 11 October, 2000 to 11 October, 2003 at a monthly rent of RMB1,200, exclusive of management fees and utilities charges.</p>	No commercial value

The following is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 April, 2000 under the Companies Law (Revised) of the Cayman Islands (the “Companies Law”). The memorandum of association (the “Memorandum”) and the articles of association (the “Articles”) comprise its constitution.

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 (including 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 provided in section 27(2) of the Companies Law and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 16 August, 2001. 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 and 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 Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

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 and the Articles and, where applicable, the rules of any Designated Stock Exchange (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 consideration 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 of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not 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*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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.

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

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

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

There are provisions in the Articles prohibiting the making of loans to Directors.

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

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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. Subject as 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.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor 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 or 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 contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) 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 matters, namely:—

- (aa) any contract or arrangement for 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) any contract or arrangement for the giving by the Company 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 contract or arrangement 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 contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Articles)) is beneficially interested in 5 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); or
- (ff) 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.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only 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 prepaid or repaid all travelling, 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.

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 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 or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any 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 ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension

or benefit may, as the board considers desirable, 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 each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. 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. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

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 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. There is no maximum number of Directors.

The office or director shall be vacated:—

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (bb) becomes of unsound mind or dies;
- (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 resolves 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;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time 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 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 it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

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) Proceedings of the Board

The board may meet for the despatch of business, 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.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that 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.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to confirm any amendment to the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:–

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of a larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or share premium account or any capital redemption reserve or other undistributable reserve in any way by special resolution.

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

Subject to the Companies Law, 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 two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. 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.

The 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.

(e) Special resolution-majority required

Pursuant to 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 as, 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 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, 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 per cent. 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 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 or restrictions 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 of which he is the holder 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 not use all his votes or cast all the votes he uses in the same way.

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 (i) the chairman of the meeting or (ii) at least three 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 (iii) 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 (iv) 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.

If a recognised clearing house is a member of the Company, it may authorise such person or persons (or its nominee) 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 pursuant to this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual member of the Company.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of incorporation (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of incorporation, unless a longer period would not infringe the rules of any Designated Stock Exchange (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 accounts 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 required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles.

Auditors shall be appointed and the terms and tenure of such appointment and their duties shall at all times be regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should 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 shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given

to all members of the Company other than such as, 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, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:—

- (i) 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
- (ii) 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 per cent in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:—

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors; and
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. in nominal value of its existing issued share capital.
- (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 as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house 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. The instrument of transfer shall be executed 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 in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law 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 a 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, refuse 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 recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (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 person 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 Designated Stock Exchange (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 total 30 days in any year.

(k) Power for 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 requirements imposed from time to time by any Designated Stock Exchange.

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

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

(m) Dividends and other methods of distribution

Subject to the Companies Law, 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, realised or unrealised, 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 the share premium account or any other fund or account which can be authorised 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, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to 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.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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. The Company may also upon the recommendation of the board by an

ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest 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, or in the case of joint holders, addressed to the holder whose name stands first in the register 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 holders may in writing 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 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 of 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 authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls 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). A call may be made payable either in one lump 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 cent. per annum as the board may agree to accept 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 monies 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) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating 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 monies 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 the date of actual payment at such rate not exceeding 20 per cent. per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 dollars, at the registered office or such other place in the Cayman Islands at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$10.00, at the

Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(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.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (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 authorised 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.

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

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 4(e) 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 (i) 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, 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 (ii) 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 so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have

been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or 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 authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable 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 Designated Stock Exchange (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 Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (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

The Articles provide that to the extent that it is not prohibited by and is 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 is incorporated in the Cayman Islands subject to the Companies Law (Revised) of the Cayman Islands and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangement 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 (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

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.

The Companies Law provides 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 so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes 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

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

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

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised 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 shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. 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 company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's

memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association 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 of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) Protection of minorities

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

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

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

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

(g) Management

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

(h) Accounting and auditing requirements

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 of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

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) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 2 May, 2000.

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 party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will 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.

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 the directors may, from time to time, think fit. There is no requirement under the Companies Law 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.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting 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 an event 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 the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

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, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories (shareholders) 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.

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

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person 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 authorised 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.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders 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 shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, 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 shareholder 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 shareholders of a United States corporation.

(p) 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 per cent. 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 shareholders to transfer their shares on the terms of the offer. A dissenting shareholder 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 shareholder 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 shareholders.

(q) 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, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, Cayman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law (Revised), is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. 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.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 7 April, 2000. The Company has established a place of business in Hong Kong at Room 2210, 22nd Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong and was registered on 3 July, 2000 as an overseas company under Part XI of the Companies Ordinance. Mr. Yan and Mr. Lau have been appointed as the authorised representatives of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution which comprises a memorandum of association and articles of association. A summary of various parts of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of the Company and its subsidiaries*The Company*

As at the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 Shares.

The following alterations in the share capital of the Company have taken place within the two years preceding the date of this prospectus:—

- (a) On 7 April, 2000, one subscriber share of the Company of HK\$0.10 was taken up and fully paid up by Codan Trust Company (Cayman) Limited (an affiliated services company of Conyers Dill & Pearman, Cayman) at par and was on the same day transferred to Mr. Yan at par;
- (b) On 7 June, 2000, six Shares and three Shares were allotted at par to Mr. Yan and Mr. Lau respectively, credited as fully paid;
- (c) On 16 August, 2001, Mr. Yan and Mr. Lau transferred their respective shareholdings in the Company to Sebastian and Mitac respectively;
- (d) On 16 August, 2001, the authorised share capital of the Company was increased from HK\$100,000 to HK\$120,000,000 by the creation of an additional 1,199,000,000 Shares to rank equally with the then existing Shares in all respects; and
- (e) On 16 August, 2001, 90,999,993 Shares and 38,999,997 Shares were allotted fully paid to Sebastian and Mitac respectively at the directions of Mr. Yan and Mr. Lau as consideration for the acquisition of the entire issued capital of Angels Transport and Angels Logistics.

Assuming that the Placing becomes unconditional and the issue of the Offer Shares mentioned herein is made but taking no account of any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme and the Over-allotment Option, the authorised share capital of the Company will be HK\$120,000,000 divided into 1,200,000,000 Shares and the issued share capital of the Company will be HK\$18,000,000 divided into 180,000,000 Shares fully paid or credited as fully paid, with 1,020,000,000 Shares remaining unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, and save as otherwise disclosed herein, there is no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Company's shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

The Subsidiaries

The subsidiaries of the Company are listed in the Accountants' Report set out in Appendix I to this prospectus. The following alterations in the share capital of each of the, direct and indirect, subsidiaries of the Company took place within the two years immediately preceding the date of this prospectus:-

(a) Angels Transport

- (i) On 31 January, 2000, 70,000 shares of HK\$1.00 each were allotted and issued to Mr. Yan at par, credited as fully paid;
- (ii) On 31 January, 2000, 30,000 shares of HK\$1.00 each were allotted and issued to Mr. Lau at par, credited as fully paid;
- (iii) On 16 November, 2000, the authorised share capital of Angels Transport was increased from HK\$3,000,000 to HK\$4,000,000 by the creation of an additional 1,000,000 shares of HK\$1.00 each;
- (iv) On 16 November, 2000, 2,135,000 shares of HK\$1.00 each were allotted and issued to Mr. Yan for a total subscription price of HK\$2,135,000, credited as fully paid;
- (v) On 16 November, 2000, 915,000 shares of HK\$1.00 each were allotted and issued to Mr. Lau for a total subscription price of HK\$915,000, credited as fully paid;
- (vi) On 16 August, 2001, the authorised share capital of Angels Transport was increased from HK\$4,000,000 to HK\$10,000,000 by the creation of an additional 6,000,000 shares of HK\$1.00 each;
- (vii) On 16 August, 2001, 700 shares of HK\$1.00 each were allotted and issued to Mr. Yan at par, credited as fully paid;

- (viii) On 16 August, 2001, 300 shares of HK\$1.00 each were allotted and issued to Mr. Lau at par, credited as fully paid;
- (ix) On 16 August, 2001, 4,123,537 shares of HK\$1.00 each were allotted and issued to Mr. Yan at par, credited as fully paid;
- (x) On 16 August, 2001, 1,767,230 shares of HK\$1.00 each were allotted and issued to Mr. Lau at par, credited as fully paid;
- (xi) On 16 August, 2001, Mr. Yan transferred the 6,329,237 shares he held in Angels Transport to the Company as part of the consideration for the allotment and issue, credited as fully paid, of 90,999,993 Shares to Sebastian, as referred to in paragraph (u) of the paragraph headed “Summary of material contracts” in this Appendix; and
- (xii) On 16 August, 2001, Mr. Lau transferred the 2,712,530 shares he held in Angels Transport to the Company as part of the consideration for the allotment and issue, credited as fully paid, of 38,999,997 Shares to Mitac, as referred to in paragraph (u) of the paragraph headed “Summary of material contracts” in this Appendix.

(b) *Angels Logistics*

- (i) On 28 February, 2000, 70,000 shares of HK\$1.00 each were allotted and issued to Mr. Yan at par, credited as fully paid;
- (ii) On 28 February, 2000, 30,000 shares of HK\$1.00 each were allotted and issued to Mr. Lau at par, credited as fully paid;
- (iii) On 16 August, 2001, 562,100 shares of HK\$1.00 each were allotted and issued to Mr. Yan at par, credited as fully paid;
- (iv) On 16 August, 2001, 240,900 shares of HK\$1.00 each were allotted and issued to Mr. Lau at par, credited as fully paid;
- (v) On 16 August, 2001, Mr. Yan transferred the 632,100 shares he held in Angels Logistics to the Company as part of the consideration for the allotment and issue, credited as fully paid, of 90,999,993 Shares to Sebastian, as referred to in paragraph (u) of the paragraph headed “Summary of material contracts” in this Appendix; and
- (vi) On 16 August, 2001, Mr. Lau transferred the 270,900 shares he held in Angels Logistics to the Company as part of the consideration for the allotment and issue, credited as fully paid, of 38,999,997 Shares to Mitac, as referred to in paragraph (u) of the paragraph headed “Summary of material contracts” in this Appendix.

(c) Beijing Angels

- (i) On 18 February, 2000, Mr. Yan, Mr. Lau, Liu Ying Ying (劉瑛瑛), Zhu Quan (諸全) and Wang Jia Ning (王家寧) transferred the equity interests they respectively held in Beijing Angels to Angels Transport in their entirety for a total cash consideration of RMB3,200,000 as a result of which Beijing Angels was converted into a wholly foreign-owned enterprise upon obtaining the approval of the relevant government authority on 23 March, 2000; and
- (ii) On 2 June, 2000, approval was obtained from the relevant government authority for the increase of the registered capital of Beijing Angels from RMB800,000 to RMB1,660,000.

(d) Guangzhou Angels

- (i) On 27 April, 2000, Guangzhou Angels was established by Angels Logistics as a wholly foreign-owned enterprise under the laws of the PRC.

(e) Angels Technology

- (i) Upon its incorporation on 26 April, 2000, 7,000 subscriber shares of HK\$1.00 each in Angels Technology were allotted and issued at par to Mr. Yan;
- (ii) Upon its incorporation on 26 April, 2000, 3,000 subscriber shares of HK\$1.00 each in Angels Technology were allotted and issued at par to Mr. Lau;
- (iii) On 16 August, 2001, Mr. Yan transferred the 7,000 shares he held in Angels Technology to Angels Transport in consideration of the allotment and issue, credited as fully paid, of 700 shares in Angels Transport to Mr. Yan; and
- (iv) On 16 August, 2001, Mr. Lau transferred 2,999 shares he held in Angels Technology to Angels Transport and he further transferred the beneficial ownership of 1 share he held in Angels Technology to Angels Transport and continued to hold the legal ownership of the said share on trust for Angels Transport, in consideration of the allotment and issue, credited as fully paid, of 300 shares in Angels Transport to Mr. Lau;

Save as aforesaid, there has been no alteration in the share capital of the Company nor any of its subsidiaries within the two years preceding the date of this prospectus.

3. Shareholders' meeting of the Company dated 16 August, 2001

On 16 August, 2001, an extraordinary general meeting of the Company's shareholders was held and the following resolutions were passed:—

(a) **THAT**, conditional on:—

(i) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options granted under the Share Option Scheme); and

(ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus (or such later date as DBS Asia may agree):

(aa) (i) the Placing be approved and the Directors be authorised to allot and issue the New Shares;

(ii) the Over-allotment Option be granted to the Underwriters (exercisable by DBS Asia) and the Directors be authorised to allot and issue up to an additional 9,450,000 Shares pursuant thereto;

(bb) the rules of the Share Option Scheme be approved and adopted, and the Directors be authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

(cc) a general unconditional mandate be given to the Directors to allot, issue and deal with Shares (otherwise than by way of rights or an issue of Shares upon the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares of the Company in lieu of the whole or part of a dividend on Shares in accordance with the Company's Articles of Association or a specific authority granted by the Company's shareholders in general meeting) with an aggregate nominal value not exceeding the aggregate of 20 per cent. of the total nominal value of the share capital of the Company in issue immediately following completion of the Placing (including Shares which may be issued pursuant to

the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:–

- (A) the conclusion of the Company's next annual general meeting;
 - (B) the expiration of the period within which the Company's next annual general meeting is required by the Company's Articles of Association or applicable law to be held; or
 - (C) the passing of an ordinary resolution of the Company's shareholders in general meeting revoking, varying or renewing such mandate;
- (dd) a general unconditional mandate be given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Company's securities may be listed and which is recognised by the SFC in Hong Kong and the Stock Exchange for this purpose such number of Shares as will represent up to 10 per cent. of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing (including Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:–
- (A) the conclusion of the Company's next annual general meeting;
 - (B) the expiration of the period within which the Company's next annual general meeting is required by the Company's Articles of Association or applicable law to be held; or
 - (C) the passing of an ordinary resolution of the Company's shareholders in general meeting revoking, varying or renewing such mandate;
- (ee) the general unconditional mandate mentioned in paragraph (cc) above be extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (dd) above provided that such extended amount shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing (including Shares which may be issued pursuant to the exercise of the Over-allotment Option); and

(b) **THAT**, the new Articles of Association be approved and adopted.

4. Corporate reorganisation

In order to facilitate the future expansion of the business of the Group and in preparation for the listing of the shares of the Company, the Group effected a reorganisation, pursuant to which the Company became the ultimate holding company of the Group. The reorganisation involved the following:—

- (i) The Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 7 April, 2000, one Share was issued to Codan Trust Company (Cayman) Limited fully paid and was on the same day transferred to Mr. Yan at par. On 7 June, 2000, six Shares and three Shares were issued to Mr. Yan and Mr. Lau respectively fully paid.
- (ii) Angels Transport was incorporated by Mr. Yan and Mr. Lau in the BVI with an authorised share capital of HK\$3,000,000 divided into 3,000,000 ordinary shares of HK\$1.00 each. On 31 January, 2000, 70,000 shares and 30,000 shares were issued to Mr. Yan and Mr. Lau respectively.
- (iii) Angels Logistics was incorporated by Mr. Yan and Mr. Lau in the BVI with an authorised share capital of HK\$5,000,000 divided into 5,000,000 ordinary shares of HK\$1.00 each. On 28 February, 2000, 70,000 shares and 30,000 shares were issued to Mr. Yan and Mr. Lau respectively.
- (iv) Angels Technology was incorporated by Mr. Yan and Mr. Lau in Hong Kong with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 26 April, 2000, 7,000 shares were issued to Mr. Yan and 3,000 shares were issued to Mr. Lau.
- (v) Pursuant to an agreement dated 18 February, 2000, Mr. Yan, Liu Ying Ying (劉瑛瑛), Mr. Lau, Zhu Quan (諸全) and Wang Jia Ning (王家寧) (the “Beijing Angels Vendors”) transferred their respective interests in the registered capital, in Beijing Angels to Angels Transport for a cash consideration of RMB3,200,000 to be received by the Beijing Angels Vendors in the proportions of their respective interests in Beijing Angels. The portions of the consideration, being RMB1,600,000 and RMB480,000, which were due to Mr. Yan and Mr. Lau were not paid immediately but, for the purpose of the subscription of shares described in the following paragraph, were recorded in the directors’ current account of Angels Transport as monies owed to Mr. Yan and Mr. Lau.

On 16 November, 2000, Mr. Yan and Mr. Lau subscribed for 2,135,000 shares and 915,000 shares in Angels Transport at a subscription price of HK\$2,135,000 and HK\$915,000 respectively. Amounts of HK\$2,135,000 and HK\$915,000 recorded in the directors’ current account of Angels Transport representing monies owed by Angels Transport to Mr. Yan and Mr. Lau respectively (which amounts included the full amounts of RMB1,600,000 and RMB480,000 due to Mr. Yan and Mr. Lau respectively under the agreement described in the preceding paragraph) were capitalised by applying such amounts to pay up in full the

shares applied for by Mr. Yan, and Mr. Lau. After the completion of such subscription, Mr. Yan and Mr. Lau had the same percentage in shareholdings in Angels Transport as they previously had. It is the Directors' understanding that the transfer of interests in Beijing Angels from the Beijing Angels Vendors to Angels Transport was subject to the approval of the Commission of Foreign Trade and Economic Co-operation ("COFTEC") and it was the current practice of COFTEC that such a transfer would not be approved if it was made in consideration of the issue of new shares by Angels Transport to the Beijing Angels Vendors. Hence this part of the Reorganisation was achieved in two stages; a cash consideration payable to the Beijing Angels Vendors (part of such consideration being recorded as amounts owed to Mr. Yan and Mr. Lau) and a subscription for new shares in Angels Transport by Mr. Yan and Mr. Lau in consideration of the capitalisation of amounts owed by Angels Transport to Mr. Yan and Mr. Lau.

- (vi) Angels Logistics established Guangzhou Angels as a wholly foreign-owned enterprise on 27 April, 2000.
- (vii) On 16 August, 2001, Mr. Yan and Mr. Lau transferred their respective shareholdings in Angels Technology to Angels Transport save for the legal ownership of one share which continued to be held by Mr. Lau on trust for Angels Transport;
- (viii) On 16 August, 2001, Mr. Yan and Mr. Lau subscribed for 4,123,537 shares and 1,767,230 shares respectively in Angels Transport at par. Amounts of HK\$4,123,537 and HK\$1,767,230 recorded in the directors' current account of Angels Transport representing monies owed by Angels Transport to Mr. Yan and Mr. Lau respectively were capitalised by applying such amounts to pay up in full the shares applied for by Mr. Yan and Mr. Lau;
- (ix) On 16 August, 2001, Mr. Yan and Mr. Lau subscribed for 562,100 shares and 240,900 shares respectively in Angels Logistics at par. Amounts of HK\$562,100 and HK\$240,900 recorded in the directors' current account of Angels Logistics representing monies owed by Angels Logistics to Mr. Yan and Mr. Lau respectively were capitalised by applying such amounts to pay up in full the shares applied for by Mr. Yan and Mr. Lau;
- (x) On 16 August, 2001 Mr. Yan and Mr. Lau transferred their respective shareholdings in the Company to Sebastian and Mitac respectively.
- (xi) On 16 August, 2001 Mr. Yan and Mr. Lau transferred their respective shareholdings in Angels Transport and Angels Logistics to the Company in consideration of the allotment and issue of 90,999,993 Shares and 38,999,997 Shares to Sebastian and Mitac respectively at the directions of Mr. Yan and Mr. Lau.

5. Repurchase by the Company of its own securities

(a) *Exercise of the Repurchase Mandate*

Exercise in full of the Repurchase Mandate (on the basis of 180,000,000 Shares in issue immediately after listing of the Shares and taking no account of the Shares which may be allotted pursuant to options under the Share Option Scheme) could result in up to 18,000,000 Shares being repurchased by the Company during the period up to the earliest of (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or the Companies Law or any other applicable laws of the Cayman Islands to be held; or (iii) the revocation, variation or renewal of the repurchase mandate by ordinary resolution of the shareholders of the Company in general meeting.

(b) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share of the Company 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 and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(d) *General*

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or on its gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

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

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, has any present intention, if the Repurchase Mandate is exercised, to sell any Share 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 Shares to the Company or has undertaken not to do so.

If as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder, or a group of shareholders acting in concert (as defined in the Code), depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code. Save as aforesaid, the Directors are not aware of any other consequences under the Code as a result of a repurchase of Shares made immediately after the listing of the Shares.

6. 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 two years preceding the date of this prospectus and are or may be material:—

- (a) an agreement dated 23 December, 1999 among 慎豐化工建材(深圳)有限公司 (Shenfeng Chemical Construction Materials (Shenzhen) Company Limited*) (the "Creditor"), Mr. Yan and Beijing Angels whereby Beijing Angels novated to Mr. Yan a debt in the sum of RMB800,000 by it owed to the Creditor for the consideration of RMB800,000 and Mr. Yan accepted the liability to repay such sum to the Creditor;
- (b) an agreement dated 1 March, 2000 between Beijing Angels and Mr. Yan whereby Beijing Angels assigned to Mr. Yan a property under development situated at the south-west side of Beijing Village Golf Course, Xunyi, Beijing, the PRC and known as No. 25 Huazhongyuan for the consideration of RMB2,100,000;
- (c) two agreements dated 18 February, 2000 and 18 March, 2000 among Mr. Yan, Liu Ying Ying (劉瑛瑛), Mr. Lau, Zhu Quan (諸全) and Wang Jia Ning (王家寧) (the "Beijing Angels Vendors") and Angels Transport (the "Share Transfer Agreement") whereby the Beijing Angels Vendors transferred their entire interests in the registered capital of Beijing Angels to Angels Transport for a cash consideration of RMB800,000 (which was subsequently amended to RMB3,200,000, as described in material contract (f) below);

* For identification only

- (d) a lease agreement dated 23 May, 2000 between 廣州市新技術產業開發區天河科技園管委會服務中心 (Guangzhou Tianhe Kejiyuan Management Committee Service Centre of the Guangzhou New Technology Industry Development Zone*) as landlord and Guangzhou Angels as tenant for the lease of a property at Unit 406, Ditie Building, 58 Jianzhong Road, Tianhe District, Guangzhou, Guangdong Province, the PRC for a term of eight years and two months from 1 June, 2000 to 30 July, 2008 at an initial monthly rental of RMB5,457 with a rent free period of two years and two months;
- (e) a lease agreement dated 7 July, 2000 between 北京裕盛物業管理中心 (Beijing Yusheng Property Management Centre*) as a landlord and Beijing Angels as tenant for the lease of a property at 3rd Level, Block No. 6#-C, Zhongyu Business Garden, 42 Fucheng Road, Haidian District, Beijing, the PRC for a term of three years from 7 August, 2000 to 6 August, 2003 for an annual rental of RMB808,475;
- (f) a supplemental agreement to the Share Transfer Agreement as referred to in paragraph (c) above dated 18 July, 2000 among the Beijing Angels Vendors and Angels Transport to amend the amount of the consideration from RMB800,000 to RMB3,200,000;
- (g) a tenancy agreement dated 21 August, 2000 between The China and South Sea Bank, Limited as landlord and Angels Technology as tenant for the lease of offices at Unit 2210, 22nd Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for a term of one year from 25 August, 2000 and expiring on 24 August, 2001 at a monthly rental of HK\$29,442;
- (h) a lease agreement dated 16 August, 2000 between 廣州天河科技園管委會服務中心 (Guangzhou Tianhe Kejiyuan Management Committee Service Centre*) as landlord and Guangzhou Angels as tenant for the lease of a property at Unit 402, 1st Staircase, Block No. 2, Xin Jing Yuan, Tangshi Road, Tianhe District, Guangzhou, Guangdong Province, the PRC for a term commencing from 16 August, 2000 to 31 December, 2002 at a monthly rental of RMB563.42;
- (i) a lease agreement dated 10 October, 2000 between Fan Yi Bao (范義寶) as landlord and Beijing Angels as tenant for the lease of a property at Unit 1, No. 402, 4th Level, Block No. 8, Babaozhuang Small District, Haidian District, Beijing, the PRC for a term of one year and one day from 10 October, 2000 to 10 October, 2001 at a monthly rental of RMB2,200;
- (j) a lease agreement dated 11 October, 2000 between Zhou Jin Fu (周金福) as landlord and Beijing Angels as tenant for the lease of a property at Unit 201, 2nd Level, Block No. 116-3, Bailong Small District, Longan Lane, Guandu District, Kunming, Yunnan Province, the PRC for a term of three years and a day from 11 October, 2000 to 11 October, 2003 at a monthly rental of RMB1,400;


* For identification only

- (k) a lease agreement dated 11 October, 2000 between Huang Zu Shun (黃祖順) as landlord and Beijing Angels as tenant for the lease of a property at Unit 501, 5th Level, Block No. 130-1, Bailong Small District, Longtai Lane, Guandu District, Kunming, Yunnan Province, the PRC for a term of three years and a day from 11 October, 2000 to 11 October, 2003 at a monthly rental of RMB1,200;
- (l) pursuant to an agreement dated 27 December, 2000 between the Company and Mr. Yan, Mr. Yan agreed to grant to the Company, Angels Transport, Angels Logistics, Angels Technology and/or Beijing Angels a loan facility up to the maximum sum of HK\$7,500,000 during the period from the date on which the first advance was made to the Group to (but excluding) the date on which the Shares were listed on GEM. The outstanding amount under this facility had been capitalised as described in sub-paragraphs (v), (viii) and (ix) of the paragraph headed “Corporate reorganisation” in this Appendix;
- (m) pursuant to an agreement dated 27 December, 2000 between the Company and Mr. Lau, Mr. Lau agreed to grant to the Company, Angels Transport, Angels Logistics, Angels Technology and/or Beijing Angels a loan facility up to the maximum sum of HK\$930,000 during the period from the date on which the first advance was made to the Group to (but excluding) the date on which the Shares were listed on GEM. The outstanding amount under this facility had been capitalised as described in sub-paragraphs (v), (viii) and (ix) of the paragraph headed “Corporate reorganisation” in this Appendix;
- (n) pursuant to an agreement dated 27 December, 2000 between the Company and Angels Investments Consultants Limited (“Angels Investments”), Angels Investments agreed to grant to the Company, Angels Transports, Angels Technology and/or Angels Logistics a loan facility up to the maximum sum of HK\$2,160,000 during the period from 10 January, 2000 to (but excluding) the date on which the Shares were listed on GEM to be repaid upon demand or otherwise on the business day immediately after the date the Shares were listed on the GEM;
- (o) a lease agreement dated 1 June, 2001 between Guo Qing Zeng (郭慶增) as landlord and Beijing Angels as tenant for the lease of a property at Unit No. 302 on the 4th level and Unit No. 603 on the 5th level, Zone B, Taipingqiao Industry and Trading Corporation Small District, Fengtai District, Beijing, the PRC for a term of one year and one day from 11 June, 2001 to 11 June, 2002 at a monthly rental of RMB2,750;
- (p) an instrument of transfer and bought and sold notes dated 16 August, 2001 in respect of the transfers of shares in Angels Technology, as to 7,000 shares in aggregate by Mr. Yan to Angels Transport and 2,999 shares by Mr. Lau to Angels Transport and a declaration of trust dated 16 August, 2001 in respect of the beneficial interest in 1 share by Mr. Lau in favour of Angels Transport, in consideration of the allotment of 700 shares and 300 shares in Angels Transport to Mr. Yan and Mr. Lau respectively;
- (q) a novation agreement dated 16 August, 2001 entered into by Angels Technology, Angels Transport and Mr. Yan pursuant to which Angels Technology novated to Angels Transport the liabilities in relation to the debts in the sum of HK\$3,550,799 owed to Mr. Yan in consideration of the payment of HK\$3,550,799 and Mr. Yan consented to such novation;

- (r) a novation agreement dated 16 August, 2001 entered into by Angels Technology, Angels Transport and Mr. Lau pursuant to which Angels Technology novated to Angels Transport the liabilities in relation to the debts in the sum of HK\$263,968 owed to Mr. Lau in consideration of the payment of HK\$263,968 and Mr. Lau consented to such novation;
- (s) a share transfer dated 16 August, 2001 executed by Mr. Yan as transferor and Sebastian as transferee in respect of the transfer of seven shares for a consideration of HK\$0.70;
- (t) a share transfer dated 16 August, 2001 executed by Mr. Lau as transferor and Mitac as transferee in respect of the transfer of three shares for a consideration of HK\$0.30;
- (u) an agreement dated 16 August, 2001 among Mr. Yan, Mr. Lau and the Company for the acquisition by the Company of the entire issued share capital of Angels Transport and Angels Logistics in consideration of the allotment and issue, credited as fully paid of an aggregate of 90,999,993 Shares and 38,999,997 Shares to Sebastian and Mitac, at the directions of Mr. Yan and Mr. Lau, respectively;
- (v) a deed of indemnity dated 21 August, 2001 given by Sebastian, Mitac, Mr. Yan and Mr. Lau in favour of the Group in respect of estate duty against any member of the Group as referred to on page 192 of this Appendix;
- (w) the Underwriting Agreement;
- (x) a sponsor's agreement dated 21 August, 2001, entered into between the Company and DBS Asia whereby the Company appointed DBS Asia to act as its sponsor for the purposes of the GEM Listing Rules; and
- (y) a letter of undertaking dated 21 August, 2001 issued by each of Sebastian, Mitac, Mr. Yan and Mr. Lau to the Company and the Stock Exchange, pursuant to which the parties undertook to comply with the requirements of Rules 13.16 and 13.20 (as modified by the waiver granted by the Stock Exchange) of the GEM Listing Rules.

7. Intellectual property rights

As at the Latest Practicable Date, the Group had applied for the registration of the following mark in Hong Kong, the registration of which has not yet been granted.

Trade/ Service mark	Place of application	Class	Application number	Application date
	Hong Kong	35 (advertising; business management; business administration; office functions)	25912 of 2000	27 November, 2000

The Group has applied for patent and software copyright protection for the proprietary rights in relation to two of its technological achievements and products in the PRC, namely the toll collection system with the automatic picture-capturing function and the "B & A Expressway

Toll Collection System” software respectively. In April 2000, the Group received an Acceptance Notice of Application for Patents Registration from the State Intellectual Property Rights Bureau of the PRC for the patent application in respect of the toll collection system with the automatic picture-capturing function. The Directors do not envisage that there will be any difficulty in establishing the Group’s proprietary rights for such technology and product and obtaining the patent applied for. In May 2000, a Certificate of Registration of Software Copyrights was granted to Beijing Angels in respect of the “B&A Expressway Toll Collection System with an initial protection period of 25 years commencing on 5th April 1998 which may be renewed for another term of 25 years.

B. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND STAFF

1. Directors

Disclosure of Interests

Immediately following completion of the Placing, the interests of the Directors in the Shares and in the share capital of any of its associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:–

(i) Interests in the Company

Name	Personal interest	Family interest	Corporate interest	Other interest
Mr. Yan	N/A	N/A	81,900,000 Shares (<i>note 1</i>)	N/A
Mr. Lau	N/A	N/A	35,100,000 Shares (<i>note 2</i>)	N/A

Notes: 1. These Shares are owned by Sebastian, the entire issued share capital of which is legally and beneficially owned by Mr. Yan.

2. These Shares are owned by Mitac, the entire issued share capital of which is legally and beneficially owned by Mr. Lau.

2. Particulars of service contracts

Each of the Directors set out below, being all the executive Directors, has entered into a continuous service contract with the Company commencing from 7 April, 2000 (in the cases of Mr. Yan and Mr. Lau) and 11 January, 2001 (in the cases of Zhu Quan and Shek Ying, Christine). The contracts will continue for a fixed term of three years from the date of execution and thereafter will continue unless terminated by not less than 90 days' notice in writing served by either party on the other. Each of these executive Directors is entitled to a basic salary set out below (subject to annual review). In addition, each executive Director is also entitled to a discretionary bonus payable on or before the end of each year at the discretion of the Board. None of the executive Directors is entitled to vote on Board resolutions relating to any discretionary bonus payable to him. The basic annual salaries to which the executive Directors are entitled are as follows:–

Director	Annual Salary
Mr. Yan	HK\$455,000
Mr. Lau	HK\$455,000
Zhu Quan	HK\$156,000
Shek Ying, Christine	HK\$195,000

Save as disclosed, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Directors' remuneration

- (a) The Company's policies concerning remuneration of executive Directors are as follows:–
- (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
 - (ii) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (iii) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of their remuneration package.

- (b) An aggregate amount of approximately HK\$361,000, approximately HK\$1,123,000 and approximately HK\$297,000, respectively, was paid in cash to the Directors as remuneration for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001. Particulars of remuneration for each Directors are as follows:–

Director		Year ended 31 December,		Three months ended
		1999 HK\$'000	2000 HK\$'000	31 March, 2001 HK\$'000
Mr. Yan	Basic salaries	56	459	104
	Bonuses	75	–	–
	Pension Scheme Contribution	–	2	6
Mr. Lau	Basic salaries	40	376	106
	Bonuses	65	–	–
	Pension Scheme Contribution	–	2	6
Zhu Quan	Basic salaries	54	130	27
	Bonuses	65	–	–
	Pension Scheme Contribution	6	6	1
Shek Ying, Christine	Basic salaries	–	147	45
	Bonuses	–	–	–
	Pension Scheme Contribution	–	1	2
Total		<u>361</u>	<u>1,123</u>	<u>297</u>

- (c) It is expected that an aggregate sum of approximately HK\$1.3 million will be paid to the Directors as remuneration by the Group in respect of the year ended 31 December, 2001 pursuant to the present arrangements excluding discretionary bonuses.
- (d) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001 (i) as an inducement to join or upon joining the Group or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (e) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December, 2000 and the three months ended 31 March, 2001.

- (f) The non-executive Directors have not been appointed for any fixed term but shall be subject to retirement by rotation in accordance with the Articles of Association. Save for directors' fees of HK\$60,000 for each independent non-executive Director per annum, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

4. Others

Apart from the Directors, two other individuals were amongst the five persons who received the highest emoluments from the Group for the year ended 31 December, 2000 and the three months ended 31 March, 2001. Particulars of emoluments paid to such individuals are set out in paragraph 3(f) of the Accountants' Report in Appendix I to this prospectus.

5. Agency fees or commissions received

The Underwriters will receive an underwriting commission, DBS Asia will receive a financial advisory fee and a documentation fee as mentioned in the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" of this prospectus.

6. Substantial shareholders of the Company

So far as the Directors are aware, immediately following the Placing, the holders of 10 per cent. or more of the Shares then in issue (taking no account of the Shares which may be taken up under the Placing and Shares falling to be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) will be:—

Name	Number or approximate attributable number of Shares	Percentage of holding of Shares in issue immediately following the Placing %
Sebastian	81,900,000	45.5
Mitac	35,100,000	19.5

7. Disclaimers

Save as disclosed in this Appendix:—

- (a) none of the Directors nor the chief executive of the Company has for the purposes of section 28 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), 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 interest in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or any interest

which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange once such securities are listed on the GEM;

- (b) none of the Directors nor any of the persons whose names are listed in the sub-paragraph headed “Experts” in this Appendix has any direct or indirect interest in the promotion of the Company or in any assets which have, within the two years immediately preceding the date of this prospectus, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors nor any of the persons whose names are listed in the paragraph headed “Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group;
- (d) none of the persons named in the paragraph headed “Experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- (e) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (f) none of the Directors, the promoter of the company or the experts named in the paragraph headed “Experts” in this Appendix had received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus;
- (g) taking no account of Shares which may be taken up under the Placing, the Directors are not aware of any person who will, immediately following the completion of the Placing, be directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group;
- (h) none of the Directors, their respective associates (as defined in the GEM Listing Rules) nor, so far as is known to the Directors, shareholders of the Company who are interested in 5 per cent. or more of the issued share capital of the Company, have any interests in the five largest customers of the Group.

C. SHARE OPTION SCHEME

Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders of the Company dated 16 August, 2001 (which is still subject to certain conditions as referred to in paragraph (w) in this section):–

(a) Purpose of the Share Option Scheme

The Share Option Scheme enables the Company to grant share options to selected employees as incentives or rewards for their contribution to the Group.

(b) Who may join

A duly authorised committee of the board of directors of the Company, including two of the independent non-executive directors of the Company (the “Committee”) may, at its discretion, invite any executive, officer or employee and directors of the Group (“Eligible Employees”) to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (f) below and subject to the other terms of the Share Option Scheme summarised below.

Participant	Bases
1. Eligible Employees	all executive Directors and any executive, officer or employee of the Group
2. Full-time Employees of the Group	the number of hours spent by employees in providing services to the Group must be not less than 25 hours per week, determined by averaging out the total number of hours so spent since an employee commenced working for the Group and up to the date of the proposed grant of option

(c) Grant of options to connected persons

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

Where any option is proposed to be granted to a substantial shareholder or director of the Company or is an associate of any of such shareholder or director or an associate of any independent non-executive Director (who is an Eligible Employee) and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period up to and including the proposed date of grant of the option, would entitle him to receive the higher of:–

- (i) 0.1 per cent. of the issued share capital of the Company for the time being; and
- (ii) an aggregate value, based on the closing price of the Shares as at the date of each grant, of HK\$5 million;

then, such grant of options must be approved on a poll by the shareholders of the Company in general meeting with all connected persons of the Company abstaining from voting (except where any connected person intends to vote against the proposed grant).

(d) Offer of Options

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

(e) Payment on acceptance of option offer

HK\$10 is payable by the Eligible Employee to the Company on acceptance of the option offer which will remain open for a period of 28 days from the date of the letter by which the offer is made.

(f) Price of Shares

The subscription price for Shares under the Share Option Scheme will be notified to each grantee and will be no less than the highest of (i) the nominal amount of a Share; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, and (iii) an amount determined by the Committee in relation to each option, being not less than the arithmetical average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the option. In the case where the Shares have been listed on GEM for less than five trading days, the Offer Price shall be used as the closing price for any trading day falling within the period before listing.

(g) Maximum number of Shares

The total number of Shares to be issued upon the exercise of outstanding options subject to the Share Option Scheme and any other schemes must not, subject to the conditions set out below, in aggregate, exceed 30 per cent. of the Shares of the Company in issue from time to time during a specified period of 10 consecutive years commencing from 16 August, 2001 (excluding (i) Shares issued after that date upon the exercise of any options granted pursuant to the Share Option Scheme and any other such schemes; and (ii) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (i)):-

- (1) the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other scheme, must not in aggregate, exceed

10 per cent. of the issued share capital of the Company as at the date of adoption of the Share Option Scheme (such date being the date on which the Share Option Scheme was approved by the Shareholders of the Company) unless Shareholders' approval has been obtained pursuant to paragraph (2) or (3) below;

- (2) the Company may seek approval by Shareholders in general meeting to refresh the 10 per cent. limit. However, the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes in these circumstances must not exceed 10 per cent. of the issued share capital of the Company at the date of approval of the refreshing of the limit;
- (3) the Company may seek separate Shareholders' approval in general meeting to grant options beyond the 10 per cent. limit provided that (i) the total number of Shares to be issued upon the exercise of outstanding options subject to the Share Option Scheme and any other schemes does not in aggregate exceed 30 per cent. of the total issued share capital of the Company at the date of approval and (ii) the options in excess of the 10 per cent. limit are granted only to participants specified by the Company before such approval is sought.

Upon completion of the Placing and until further Shareholders' approval is sought, the total number of Shares subject to options which may be granted under the Share Option Scheme and any other scheme will be 18,000,000, representing 10 per cent. of the issued share capital of the Company at that time.

No Eligible Employee shall be granted options in any twelve-month period up to the date of grant which would result in the total number of Shares issued or to be issued upon exercise of the options granted (including both exercised and outstanding options) exceeding 1 per cent. (the "Grant Limit") of the aggregate number of Shares for the time being in issue. Any further grant of options in excess of the Grant Limit shall be subject to the approval of Shareholders in general meeting with such participant and his associates abstaining from voting.

(h) Time 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 (the "Option Period") to be notified by the Committee to each grantee provided that the period within which the option must be exercised shall be not more than ten years from the date of grant of the option. The Share Option Scheme does not require a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised. The Committee shall be entitled at its absolute discretion to decide the Option Period subject to the terms of the Share Option Scheme.

(i) Rights are personal to grantee

An option may not be transferred or assigned and is personal to the grantee.

(j) *Circumstances under which options will automatically lapse*

Upon the occurrence of the events stated in paragraphs (k) to (r) below, options granted (to the extent not already exercised) will, subject to the terms set out in paragraphs (k) to (r) below, automatically lapse and determine.

(k) *Rights on cessation of employment by death*

If the grantee of an option ceases to be an Eligible Employee by reason of ill-health, injury, disability or death or on retirement, he or his personal representative(s) (as the case may be) may exercise the option in whole or in part at any time within a period ending on the earlier of (a) three months after he so ceases to be an Eligible Employee and (b) the date on which the relevant option would but for this clause have ceased to be exercisable, failing which the option will lapse and determine at the end of such period.

(l) *Rights on cessation of employment by dismissal*

If the grantee of an option ceases to be an Eligible Employee by reason of his dismissal without notice (or payment in lieu) for misconduct or other grounds entitling the Company or the employing company (as the case may be) to summarily terminate his employment, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option (to the extent not already exercised) will lapse and determine as of the date he so ceases.

(m) *Rights on resignation by the Eligible Employee*

If the grantee of an option ceases to be an Eligible Employee by reason of his resignation, his option (to the extent not already exercised) will lapse and determine on the date on which his resignation is received by his employing company.

(n) *Rights on cessation of employment for other reasons*

If the grantee of an option ceases to be an Eligible Employee for any other reason, his option may be exercised on or before the date of such cessation, which date shall be the last actual working day with the employing company, whether salary is paid in lieu of notice or not.

(o) *Effects of variations in capital*

In the event of any variations in the share capital of the Company, whether by reason of consolidation, subdivision, redenomination or by way of capitalisation of profits or reserves, capital distribution to holders of any shares (whether on a reduction of capital or otherwise) or by way of rights issue or otherwise howsoever, but excluding any alteration in the capital structure of the Company as result of an issue of Shares as consideration in a transaction, the number or nominal amount of shares comprised in cash option (so far as unexercised) and/or the option price may be adjusted in such manner as the Committee may deem appropriate subject to the receipt by it of a statement in writing from the auditors for the time being of the Company that in their opinion the adjustments proposed

are fair and reasonable, provided that no increase shall be made in the aggregate subscription price payable on the exercise of any option in respect of the total Shares then comprised therein, (save where an adjustment arises by way of a capitalisation of profits or reserves) no adjustment shall be made if the same would result in an Eligible Employee not being given the same rights over the same proportion (or as near thereto as is reasonably practicable) of the equity capital of the Company as that to which he was previously entitled. No share will be issued at less than its nominal value.

(p) *Rights on take-over*

If, in consequence of any tender offer made to the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company), the offeror obtains control of the Company and the Directors notify each grantee that he (or his personal representative) shall be entitled to exercise all or any of his options in whole or in part, the grantee shall so exercise his options within a period of one month after the offeror has obtained control and any outstanding options (to the extent not already exercised) shall lapse and determine upon expiry of such period provided that if, during such period, the offeror gives notice in writing to all holders of Shares that he intends to exercise rights of compulsory acquisition of Shares, the options shall remain exercisable until one month from the date of such notice and any options (to the extent not already exercised), shall thereupon lapse and determine.

(q) *Rights on a compromise or arrangement*

If a compromise or arrangement between the Company and its members or creditors is proposed the Company shall give notice to the grantee on the same date as it dispatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may exercise all or any of the options at any time before 12:00 noon on the business day immediately preceding the date of meeting directed to be convened by the Court the purpose of considering such compromise or arrangement. Upon such compromise or arrangement becoming effective, all options to the extent that they have not been exercised thereupon shall lapse.

(r) *Rights on voluntary winding-up*

If notice is given of a meeting at which a resolution will be proposed for the voluntary winding-up of the Company, each grantee (or his personal representative(s)) shall be entitled to exercise all or any of his options in whole or in part at any time thereafter until the resolution is duly passed or defeated or the meeting is concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and determine.

(s) *Ranking of Shares*

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

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

(t) *Cancellation of Options granted*

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

(u) *Period of Share Option Scheme*

The Share Option Scheme will remain valid for a period of 10 years commencing on 16 August, 2001 after which period no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect.

(v) *Alteration to Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Committee except that under Rule 23.03 of the GEM Listing Rules, certain provisions of the Share Option Scheme shall not be altered except with the prior approval of the Shareholders in general meeting (with participants and their associates abstaining from voting). No such alteration shall operate to affect adversely any of the subsisting rights of the grantees except with the consent on their part as would be required under the provisions of the Company's articles of association if the options constituted a separate class of share capital and if such provisions applied *mutatis mutandis* thereto.

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

(w) *Conditions of the Share Option Scheme*

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

D. ESTATE DUTY AND TAX INDEMNITY

Sebastian, Mitac, Mr. Yan and Mr. Lau (collectively, the “Indemnifiers”) have, pursuant to a deed of indemnity referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the Company” in this Appendix, given indemnities on a joint and several basis in connection with, among other matters, any liability for Hong Kong estate duty which might be payable by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group. 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 the Cayman Islands.

Under the deed of indemnity, each of the Indemnifiers has also given indemnities to the Group on a joint and several basis in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date of the deed of indemnity, save in certain circumstances including where provision has been made for such taxation in the audited combined accounts of the Group up to 31 March, 2001.

E. GENERAL

1. Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

2. Sponsor

(a) The Sponsor has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme.

- (b) The Sponsor will receive normal professional fees in connection with the advisory services to be provided to the Company for a term covering the remainder of the financial year ended 31 December, 2001 and the two financial years thereafter.
- (c) DBS Asia, being the Underwriter will receive underwriting commission pursuant to the Underwriting Agreement.

3. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$2,250 and are payable by the Company.

4. Promoters

The promoters of the Company are Mr. Yan and Mr. Lau.

Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoters in connection with the Placing or the related transactions described in this prospectus within the two years immediately preceding that date of this prospectus.

5. Experts

(a) *Qualifications of experts*

The following are the qualifications of the experts who have given opinions or advice which are contained in, or referred to in, this prospectus:–

Name	Qualification
DBS Asia Capital Limited	Registered investment adviser
PricewaterhouseCoopers	Certified public accountants
Conyers Dill & Pearman, Cayman	Cayman Islands, barristers and attorneys
DTZ Debenham Tie Leung Limited	Registered professional surveyors and independent valuers
Zhong Lun Law Offices	Licensed legal advisers on PRC law

(b) *Consents of experts*

Each of DBS Asia, PricewaterhouseCoopers, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited and Zhong Lun Law Offices has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or the references to its name included therein in the form and context in which they are respectively included.

6. 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 insofar as applicable.

7. Particulars of the Vendors

Name	Description	Address	No. of Sale Shares
Sebastian	Corporation	Craigmuir Chambers P.O. Box 71, Road Town, Tortola, BVI	9,100,000
Mitac	Corporation	Craigmuir Chambers P.O. Box 71, Road Town, Tortola, BVI	3,900,000

8. Miscellaneous

(a) Save as disclosed in this prospectus:—

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no founders or management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued; and
- (iv) 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.

(b) None of DBS Asia, PricewaterhouseCoopers, Conyers Dill & Pearman, Cayman, DTZ Debenham Tie Leung Limited or Zhong Lun Law Offices:—

- (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 members of the Group.

(c) The Directors confirm that:–

(i) since 31 March, 2001 (being the date to which the latest audited consolidated financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group; and

(ii) there has not been any interruption in the business of the Group which may have or has had a material adverse effect on the financial position of the Group in the twelve months preceding the date of this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached with the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to under “Experts” in Appendix IV to this prospectus, copies of the material contracts referred to under “Summary of material contracts” in Appendix IV to this prospectus, and the statement of adjustments made by PricewaterhouseCoopers in arriving at the figures in the accountants’ report, the text of which is set forth in Appendix I to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Stephenson Harwood & Lo at 18th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including 5 September, 2001:–

- (a) the memorandum and articles of association of the Company;
- (b) the accountants’ report prepared by PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus and the related statement of adjustments;
- (c) the audited accounts of Beijing Angels issued by Topson Certified Public Accountants Beijing, for each of the two years ended 31 December, 2000;
- (d) the audited accounts of Guangzhou Angels issued by Guangdong Qimingxing Certified Public Accountants Co., Ltd. for the period from 27 April, 2000 to 31 December, 2000;
- (e) the letter, summary of valuations and valuation certificate relating to the property interests of the Group prepared by DTZ Debenham Tie Leung Limited;
- (f) the letter of advice prepared by Conyers Dill & Pearman, Cayman referred to under “General” in Appendix III to this prospectus summarising certain aspects of the Cayman Islands company law;
- (g) the Companies Law;
- (h) the material contracts referred to under “Summary of material contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to under “Consents of experts” in Appendix IV to this prospectus;
- (j) the service contracts referred to under “Particulars of services contracts” in Appendix IV to this prospectus; and
- (k) the rules of the Share Option Scheme.