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## SUMMARY

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*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 document before you decide to invest in the H Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the H Shares are set out in the section headed “Risk factors” of this prospectus – see pages 23 to 32. You should read this section carefully before you decide to invest in the H Shares.*

### **BUSINESS**

The Company is one of the leading software developers and integrated circuit designers in the PRC with expertise in developing software application and designing integrated circuits for embedded systems. The Directors believe that, through application of the Company’s own proprietary software and integrated circuits, the Company’s embedded systems have optimal performance in terms of functionalities, power consumption, system minimisation and reliability. Currently, the Company has over 70 research and development staff in its offices in Beijing and Shenzhen, the PRC, conducting research and development of embedded technology and embedded system products. The Company is also engaged in the design, manufacture, marketing, distribution and sale of five different embedded system products, namely, ASIC, Network Security Products, Smart Card Application System, GPS Application System and WFAS, all of which apply software and integrated circuits developed through the Company’s own research and development. The Company is also engaged in the provision of total solutions to address the specific needs of each customer through applications of its existing embedded system products.

Peking University is the controlling shareholder of the Company through its either controlling directly or indirectly the exercise of 30% or more of the voting power at general meetings of each of the Four Domestic Promoters or the composition of the majority of the board of directors of each of the Four Domestic Promoters. Upon listing of the H Shares, Peking University, through its interests in the Four Domestic Promoters, which altogether hold approximately a 33% (excluding the additional H Shares resulting from the exercise of Over-allotment Option) shareholding in the Company, is the ultimate controlling shareholder of the Company. Peking University, as a state-owned organisation and an education institute, will not formulate or control the formulation of business policies of the Company.

### **CAPITAL INJECTION AND MORATORIUM PERIOD**

Set out below is the summary of registered capital paid-up by the Four Domestic Promoters and each of the five foreign Promoters for the purposes of the establishment of the

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Company. By a capital verification report dated 17th April, 2000, the registered capital of the Company of RMB70 million was certified as having been fully paid-up as follows:—

Promoters	Number of Promoters Shares held by each Promoter immediately before the Placing	Approximate percentage of shareholding of each Promoter immediately after the Placing <sup>(5)</sup>	Consideration (RMB)	Moratorium period under the GEM Listing Rules	Moratorium period under the Company Law <sup>(2)</sup>
Peking University – The Four Domestic Promoters <sup>(1)</sup>	31,000,000	32.98%	31,000,000	2 years	3 years
Dynamic Win <sup>(3 &amp; 4)</sup>	22,000,000	23.40%	22,000,000	2 years	3 years
New View Venture Limited <sup>(5)</sup>	7,000,000	7.45%	7,000,000	2 years	3 years
Asian Technology Investment Company Limited	5,000,000	5.32%	5,000,000	6 months	3 years
Dragon Air Investments Limited	3,000,000	3.19%	3,000,000	Not applicable	3 years
Hinet Company Limited	2,000,000	2.13%	2,000,000	Not applicable	3 years
	<u>70,000,000</u>				

Notes:

- (1) Jade Bird Software, Jade Bird, Yu Huan and Beijing Tianqiao are respectively controlled by Peking University through either its controlling directly or indirectly the exercise of 30% or more of the voting power at general meetings of each of the Four Domestic Promoters or the composition of the majority of the board of directors (representing 50% or more of the total number of directors comprising the board) of each of the Four Domestic Promoters. Upon listing of the H Shares, Peking University, through its interests in the Four Domestic Promoters, which altogether hold approximately a 33% (excluding the additional H Shares resulting from the exercise of Over-allotment Option) shareholding in the Company, is the ultimate controlling shareholder of the Company. Peking University controls indirectly the majority of the board of Beijing Tianqiao. Peking University has undertaken not to dispose of its respective interests in the Four Domestic Promoters and the Company for a period of two years from the listing date of the H Shares.
- (2) Pursuant to article 147 of the Company Law, the Promoters Shares are not be transferable within three years after the establishment of the Company.
- (3) Gameraian Limited and Heng Huat have undertaken not to dispose of their interests in Dynamic Win and the Company for a period of two years from the listing date of the H Shares.
- (4) New World CyberBase Limited has undertaken not to dispose of its interests in Gameraian Limited, New View Venture Limited and the Company for a period of two years from the listing date of the H Shares.
- (5) Shareholding percentages have been rounded to the nearest two decimal places.

## STRENGTHS

The Directors believe that the Company's success is principally attributed to the following factors:

- its highly talented and experienced research and development team;

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- the technological support from the Institutes in the design of software and integrated circuits for use in a broad range of embedded systems;
- its proven expertise in product research, development and marketing which have resulted in product efficacy and responsiveness; and
- its commitment to products of high quality.

## BUSINESS STRATEGY

The Company's strategy is to develop a wide variety of technologically advanced software and integrated circuits to satisfy evolving market demands and requirements for embedded system products. The Company aims to become the market leader in the PRC in the development of software and integrated circuits for use in the manufacturing and production of embedded system products. The key elements of the Company's business strategies are outlined below:–

– **Compliance with the evolving standards**

The Company focuses on the research and development of advanced software and integrated circuits for the manufacture of high-end embedded system products in the PRC. The Directors believe that the high-end customers tend to be early adopters of new technology and satisfying their needs requires a constant monitoring of market and technology trends and an ability to act quickly. The Company keeps abreast of local market trends and works closely with its customers to identify the market needs and define product specifications early in the development process. This approach results in a thorough understanding of the end-users' requirements prior to commencement of the design process. The Company believes that its embedded systems and related product lines are able to meet the requirements of its high-end customers including government bodies in the PRC.

– **Establishing research and development centre in Shenzhen**

The Company intends to establish a research and development centre in Shenzhen, the PRC, to research and develop embedded systems and related products. The local government of Shenzhen actively promotes and encourages IT industry by offering preferential treatments including tax relief, preferential residential and commercial property and immigration policy to IT companies operating in Shenzhen.

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– **Maintaining relationship with Peking University**

The Directors believe that the ability to keep abreast of technology and market trends of embedded systems and the ability to develop high-reliability software and integrated circuits for use in embedded systems are the keys to the Company's success. Hence, the Directors intend to maintain the Company's well established relationship with Peking University and to access its research talent and technical expertise. The Company closely coordinates with the Computer Science and Technology Department of Peking University for the recruitment of high-calibre researchers. In addition, Peking University, on behalf of the Institutes, entered into a technological cooperation and support agreement with the Company on 17th April, 2000, pursuant to which the Institutes will provide technological cooperation and support to the Company relating to research and development of embedded technology in hardware and software and embedded system products.

– **Expanding sales and marketing activities**

The Company intends to increase its sales throughout the PRC by expanding its sales force and marketing programs. The Company's sales force and its field engineers are knowledgeable in a wide variety of hardware and software environments and able to provide valuable consultancy services to its customers. The sales and marketing programs of the Company include: (a) extending its geographical reach and expanding its distribution network in the PRC by setting up representative offices; (b) expanding the Company's existing marketing department; (c) participating in major exhibitions and conducting seminars and trade shows with a view to enhance its brandname awareness; and (d) launching extensive advertising activities.

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### TRADING RECORD

The following table summarises the Company's combined turnover and results for each of the two years ended 31st December, 1999 and is prepared on the basis that the Reorganisation of the Company as set out in section B of Appendix 5 had been contemplated as at the beginning of the track record period under review. This summary is an extract from the accountants' report, which is set out in Appendix 1 to this prospectus – pages 151 to 167:

	1998 RMB	1999 RMB	1999 HK\$ (Note 3)
REVENUES	3,029,002	10,419,234	9,807,261
COST OF REVENUES	(2,958,731)	(7,153,681)	(6,733,510)
Gross margin	70,271	3,265,553	3,073,751
SUBSIDY INCOME (Note 1)	237,999	–	–
OPERATING EXPENSES			
Research and development	(3,720,861)	(4,717,902)	(4,440,796)
Selling and marketing	–	(186,539)	(175,583)
General and administrative	(1,555,100)	(2,741,268)	(2,580,260)
Total operating expenses	(5,275,961)	(7,645,709)	(7,196,639)
Loss from operations	(4,967,691)	(4,380,156)	(4,122,888)
OTHER INCOME (LOSS), NET	160,345	(106,087)	(99,856)
LOSS BEFORE TAXATION	(4,807,346)	(4,486,243)	(4,222,744)
TAXATION	–	–	–
NET LOSS	<u>(4,807,346)</u>	<u>(4,486,243)</u>	<u>(4,222,744)</u>
LOSS PER SHARE – BASIC (Note 2)	<u>(0.069)</u>	<u>(0.064)</u>	<u>(0.060)</u>

*Notes:*

- (1) The subsidy income was granted by the government for the development of ASIC technology and was non-recurring.
- (2) The loss per share for the years ended 31st December, 1998 and 1999 is based on the net loss during the years and assuming 70,000,000 shares in issue during those years as if the Reorganisation had taken place on 1st January, 1998.
- (3) Translation of amounts from RMB into Hong Kong dollars ("HK\$") for the convenience of the reader has been made at the rate quoted by the PBOC on 30th June, 2000 of HK\$1.00 = RMB1.0624. No representation is made that the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at that rate on 30th June, 2000 or any other rate.

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According to Rule 11.11 of the GEM Listing Rules, the latest financial period of the Company reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The accountants' report contained in this prospectus has been prepared to include combined results of the Company for each of the two years ended 31st December, 1999 only. The Company has applied for, and the Stock Exchange has granted, a waiver from compliance with Rule 11.11 of the GEM Listing Rules. The Directors confirmed that they have performed sufficient due diligence on the Company to ensure that, save as disclosed herein, up to the date of the issue of this prospectus, there has been no material adverse change in the financial position of the Company since 31st December, 1999, and there is no event which would materially affect the information shown in the accountants' report of the Company as set out in Appendix 1 to this prospectus.

### REASONS FOR THE PLACING AND USE OF PROCEEDS OF THE PLACING

Given that the industry in which the Company operates is characterised by frequent product introductions and rapid technological changes, the Directors believe that the Company, with its well qualified research team and technological support from Peking University, will compete favourably with its competitors. With the State's recognition of IT as a fundamental driving force for economic growth in the PRC, the Directors believe that the market potential in this area is significant. With the proprietary technology and embedded system products developed by the Company and technological cooperation and support arrangements with Peking University, the Directors further believe that the Company will capitalise on the market potential and become one of the leaders in the market of embedded systems in the PRC. The Directors believe that the proceeds from the Placing will enable the Company to implement and realise its strategic plans as set out in the section headed "Statement of Business Objectives" in this prospectus.

The net proceeds of the Placing (assuming that the Over-allotment Option is not exercised), after deducting related expenses to be borne by the Company, are estimated to amount to about HK\$234 million. It is presently intended that the net proceeds will be applied as follows:—

- as to approximately HK\$96 million, for use in the research and development of embedded technology and related application products (including research and development, the purchase of testing and laboratory apparatus and design tools, and recruitment of additional staff for research and development);
- as to approximately HK\$70 million for setting up a research and development centre in Shenzhen;
- as to approximately HK\$30 million, for extensive marketing and promotion activities such as conducting seminars and trade shows, participating in professional exhibitions and formulating advertising plans and promotion campaigns in the PRC;

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- as to approximately HK\$10 million, to cover the set up costs of representative offices in Shanghai, Dalian and Chengdu in the PRC;
- as to approximately HK\$16 million, for recruitment of additional staff to the Company and general staff for the representative offices to be established in Shanghai, Dalian and Chengdu in the PRC;
- as to the balance of approximately HK\$12 million, for additional working capital of the Company.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$24 million which, together with the net proceeds from the Placing, after deducting related expenses, will amount to approximately HK\$258 million. The Directors intend to use any of the additional proceeds raised from any exercise of the Over-allotment Option for additional working capital.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that such net proceeds, to the extent permitted by relevant PRC regulations, will be placed on short-term deposit with banks in the PRC.

### **PLACING STATISTICS (based on a price of HK\$11.00 per H Share)**

Placing Price ..... HK\$11.00

Market capitalisation of the H Shares (*Note 1*) ..... HK\$264 million

Adjusted net tangible asset value per Share (*Note 2*) ..... RMB3.28 (HK\$3.09)

#### *Notes:*

- (1) The calculation of market capitalisation is based on the Placing Price and 24,000,000 H Shares expected to be in issue immediately after the completion of the Placing but takes no account of any H Shares which may fall to be issued upon the exercise of Over-allotment Option and the exercise of options which may be granted under the Share Option Scheme.
- (2) The adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the paragraph headed “Adjusted net tangible assets” of the section headed “Financial information” of this prospectus and on the basis of a total of 94,000,000 Shares in issue and to be issued immediately following the completion of the Placing but takes no account of any H Shares which may fall to be issued upon the exercise of Over-allotment Option and the exercise of the options which may be granted under the Share Option Scheme.

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### RISK FACTORS

The Directors consider that the Company's business is subject to a number of risk factors which can be categorised into (i) risks associated with the Company; (ii) risks associated with the industry; and (iii) risks associated with the PRC, and are summarised as follows:

Risks associated with the Company:

- Limited operating history and a history of operating loss
- Reliance on Peking University and the Four Domestic Promoters
- Reliance on key employees
- Dependence on customers
- Manufacturing and availability of components
- Non-competition undertakings
- Taxation

Risks associated with the industry:

- Regulations for commercial cryptographic products and security products relating to computer information systems in the PRC
- Competition
- Trademark infringement
- Protection of non-patented technology
- GPS techniques
- New product development
- Technological changes
- Entry into WTO
- Regulations for radio frequency in the PRC

Risks associated with the PRC:

- PRC political and economic considerations
- Legal system
- Different regulatory framework
- Securities laws and regulations
- Enforceability of judgements and arbitration
- Currency conversion and exchange rate risks