
WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

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

SHARE OPTION SCHEME

Rule 23.03(2) of the GEM Listing Rules requires that the total number of H Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the issued share capital of the Company from time to time (the “Scheme Limit”). The Company has applied for a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules so that the Scheme Limit can be increased to 30% of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:

- (1) The total number of H Shares which may be acquired pursuant to the exercise of options under the Share Option Scheme and any other scheme, must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time.
- (2) Subject to (1) above, the Company may seek approval by shareholders in general meeting to grant options under the Share Option Scheme and any other schemes entitling participants to acquire H Shares pursuant to the exercise of options representing up to an aggregate of 10% of the issued share capital of the Company at the time of approval (“General Mandate Limit”), which may be renewed by shareholders in general meetings from time to time.
- (3) Subject to (1) above, the Company may seek a separate shareholders’ approval in general meeting to grant options beyond the General Mandate Limit to participants specified by the Company.
- (4) If options are granted to a connected person (as such term is defined in the GEM Listing Rules), the granting of such options will be subject to all independent non-executive Directors’ approval and where options are proposed to be granted to a connected person who is also a substantial shareholder (as such term is defined in the GEM Listing Rules) or any of its associates, and the proposed grant of options, when granted with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1% of the total issued Shares for the time being and the value of which is in excess of HK\$5,000,000, the granting of such option will be subject to independent shareholders’ approval.
- (5) The following additional disclosures will be made in the annual and interim reports of the Company:
 - (i) details of options granted to the following persons: each director and all the other participants; and

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

- (ii) a summary of the major terms of each share option scheme approved by shareholders.

CONNECTED TRANSACTIONS

Peking University and the Four Domestic Promoters are parties to certain transactions that will, upon the listing of the Company on GEM, constitute non-exempt continuing connected transactions for the purpose of the GEM Listing Rules. These transactions (details of which are set out in the paragraph headed “Connected Transactions” in the section headed “Relationship with Peking University” in this prospectus) include:

- (1) the provision of technological cooperation and support by the Four Domestic Promoters to the Company;
- (2) the provision of technological cooperation and support by Peking University on behalf of the Institutes to the Company;
- (3) the provision of an exclusive licence to use 230M frequency band GPS technology to the Company by Beijing Tianqiao;
- (4) the sale of GPS Application System by the Company to Tian Mu;
- (5) the sale of Network Security Products by the Company to Beijing Tianqiao;
- (6) the leasing of technical equipment by the Company from the Institute of Microelectronics of Peking University; and
- (7) the leasing of technical equipment by the Institute of Microelectronics of Peking University from the Company.

In the opinion of the Directors (including the independent non-executive Directors) and Tai Fook Capital, the above transactions are entered into under normal commercial terms and in the ordinary and usual course of business, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The connected transactions described above (the “Non-Exempt Continuing Connected Transactions”) constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules and are therefore subject to the reporting requirements set out in Rule 20.34, the announcement requirement set out in Rule 20.35 and the shareholders’ approval requirement set out in Rule 20.36 of the GEM Listing Rules. It is considered that strict compliance with the requirements for the Non-Exempt Continuing Connected Transactions would be impractical. As such, the Company has applied to the Stock Exchange for waivers from strict compliance with such relevant requirements of the GEM Listing Rules for the Non-Exempt Continuing Connected Transactions for the period up to 31st December, 2002.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

The Stock Exchange has indicated that it will grant waivers for the need to comply with the requirements in respect of the Non-Exempt Continuing Connected Transactions on the following conditions:

- (i) the Non-Exempt Continuing Connected Transactions will be entered into:
 - (aa) in the ordinary course of business of the Company as defined in the GEM Listing Rules;
 - (bb) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available for independent third parties;
 - (cc) in accordance with the relevant agreements on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole;
 - (dd) with the annual aggregate value of each of the Non-Exempt Continuing Connected Transactions not exceeding the relevant annual caps;
- (ii) details of the transactions shall be disclosed in the Company's annual report as set out in Rules 20.34(1) to (5) of the GEM Listing Rules;
- (iii) the independent non-executive Directors shall review annually the Non-Exempt Continuing Connected Transactions and confirm in the Company's next annual report and accounts that the transactions have been entered into:
 - (aa) in the ordinary and usual course of business of the Company;
 - (bb) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available for independent third parties;
 - (cc) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;
- (iv) each year the auditors of the Company shall provide a letter to the Company's board of Directors (with a copy to the GEM Listing Division of the Stock Exchange), confirming that the Non-Exempt Continuing Connected Transactions:
 - (aa) have received the approval of the Directors;

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

- (bb) have been entered into in accordance with terms of the relevant agreement governing the transactions, and the pricing policies as stated therein if the transactions involve provision of goods or services by the Company; and
- (cc) have not exceeded the relevant caps agreed with the Stock Exchange (the “Caps”), details of which are set out in the paragraph headed “Non-Exempt Continuing Connected Transactions” in the section headed “Relationship with Peking University” in this prospectus;
- (v) the Company shall promptly notify the GEM Listing Division of the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28 of the GEM Listing Rules respectively, in which case the Company may have to re-comply with Rules 20.26(3) and (4) and any other conditions the GEM Listing Division of the Stock Exchange considers appropriate in respect of the Non-Exempt Continuing Connected Transactions.

The Stock Exchange has granted waivers for a period of three years to 31st December, 2002 as described above. This means that the Company has to comply strictly with the requirements of Chapter 20 of the GEM Listing Rules in respect of the Non-Exempt Continuing Connected Transactions if still continuing, after 31st December, 2002 unless the Company obtains similar waivers from the Stock Exchange in relation thereto.

In the event that any of the Caps are exceeded or if the Company enters into any new transactions or agreements with any connected persons (within the meaning of the GEM Listing Rules) in the future, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules dealing with connected transactions unless it applies for, and obtains, a separate waiver from the Stock Exchange.

FINANCIAL PERIOD REPORTED ON

Pursuant 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 the two years ended 31st December, 1999. 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.

ESCROW ARRANGEMENTS

Under the GEM Listing Rules, every initial management shareholder and significant shareholder shall comply with the following:

1. Every initial management shareholder shall place in escrow, with an escrow agent acceptable to the Stock Exchange, its relevant shares for a period of two years from the listing date, on terms acceptable to the Stock Exchange (Rule 13.16(1) of the GEM Listing Rules); and
2. Every significant shareholder shall place in escrow, with an agent acceptable to the Stock Exchange, its relevant shares for a period of six months from the listing date (Rule 13.18(1) of the GEM Listing Rules).

The Directors consider that Rules 13.16(1) and 13.18(1) of the GEM Listing Rules are not applicable to: (1) the Promoters Shares held by the Four Domestic Promoters, Dynamic Win and New View Venture Limited and (2) the Promoters Shares held by Asian Technology Investment Company Limited as significant shareholder (“Significant Shareholder”) for the following reasons:

1. The Promoters Shares of the Initial Management Shareholders and the Significant Shareholder are subject to the following legal restrictions under the relevant laws and regulations of the PRC:
 - (a) Article 147 of the Company Law provides that promoter’s shares of a joint stock limited liability company established under the Company Law are not transferable within three years after the establishment of such company; and
 - (b) Article 75 of 中華人民共和國擔保法 (the PRC Security Law) provides that only shares which are transferable may form lawful security for the purposes of pledge or charge in the PRC.

As the Company was incorporated as a joint stock limited liability company on 29th March, 2000, the Promoters Shares of the Initial Management Shareholders and the Significant Shareholder are subject to the restrictions imposed by the Company Law and PRC Securities Law and are therefore not transferable for three years until 29th March, 2003. As the Promoters Shares are not transferable, they cannot constitute lawful security for pledge or charge in the PRC.

2. Promoters Shares are not represented by any form of physical scrip or title documents. The Initial Management Shareholders and the Significant Shareholder may not be able to create any pledge or charge by deposit of the title documents of their respective Promoters Shares or any part thereof. This also means that the

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES

subject matter for custody by the escrow agent under Rules 13.16(1) and 13.18(1) of the GEM Listing Rules do not physically exist in any form available for custody purposes.

Given that the intent and purposes of Rules 13.16(1) and 13.18(1) of the GEM Listing Rules have been achieved by the relevant provisions of the PRC laws and regulations, which apply to restrict the rights of the Initial Management Shareholders and the Significant Shareholder from disposing of or pledging their respective Promoters Shares for a period which is effectively longer than the periods specified by the relevant GEM Listing Rules, the Company has applied for waivers from strict compliance with Rules 13.16(1) and 13.18(1) of the GEM Listing Rules and the waiver has been granted by the Stock Exchange on the condition that in the event if the relevant PRC laws and regulations are relaxed or removed, the Initial Management Shareholders and the Significant Shareholder would have to respectively comply with the escrow arrangement requirements under Rules 13.16(1) and 13.18(1) of the GEM Listing Rules.