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TECHNOLOGY VENTURE HOLDINGS LIMITED

(宏 昌 科 技 集 團 有 限 公 司) *

(incorporated in Bermuda with limited liability)

DISCLOSEABLE TRANSACTION RELATING TO THE DISPOSAL OF 61% INTEREST IN DMX TECHNOLOGIES GROUP LIMITED

Financial adviser to the Company



TAI FOOK CAPITAL LIMITED

The Directors announce that pursuant to the Disposal Agreement dated 3 October 2002 and made between the Vendor, a wholly owned subsidiary of the Company, and the Purchasers, the Purchasers have agreed to acquire from the Vendor the Sale Shares. The consideration for the Disposal is HK\$50 million and is payable by the Purchasers in cash. The consideration of the Disposal of HK\$50 million represents a discount of approximately HK\$10.8 million (or 17.8%) and HK\$15.3 million (or 23.4%) to the net tangible asset value of DMX (HK) attributable to the Sale Shares as at 31 December 2001 and 30 June 2002 respectively.

The unaudited profit/loss after taxation and unaudited net tangible asset value of the Remaining Group for the year ended 31 December 2001 and the 6 months ended 30 June 2002 were a loss of approximately HK\$86.0 million and approximately HK\$78.3 million and a profit of approximately HK\$0.04 million and approximately HK\$123.0 million respectively. Also, the audited profit after taxation and audited net tangible asset value of DMX Group for the 18 months ended 31 December 2001 were approximately HK\$12.1 million and HK\$99.7 million respectively. The unaudited profit after taxation and unaudited net tangible asset value of DMX Group for the 6 months ended 30 June 2002 were approximately HK\$8.4 million and HK\$107.0 million respectively.

After the Disposal, the Company has no interest in DMX. Accordingly, the Company will not proceed with the Proposed Spin-off of the DMX Group as described in the announcement of the Company dated 31 July 2002. The Company acquired 51% and 10% interest in DMX (HK) in November 2000 and July 2002 respectively at an aggregate cost of HK\$148 million, which has not taken into consideration the Balance Payment (being HK\$20 million, subject to adjustments as explained below). **Based on the unaudited management accounts of the Company as at 31 August 2002, the Company**

will incur a loss from the Disposal of approximately HK\$95 million, which has not taken into account the Balance Payment. After taking into account the Balance Payment, the Group will incur a further loss on the Disposal which amount is indeterminable as at the date of this announcement as further explained in the paragraph below headed “Loss on the Disposal” and is expected to be accounted for in the financial year in which the respective payments are actually made.

The Disposal constitutes a discloseable transaction for the Company under the Listing Rules. A circular containing, among other things, details of the Disposal will be sent to the Shareholders as soon as possible.

THE DISPOSAL AGREEMENT

Date

3 October 2002

Parties

- (1) The Vendor : Technology Venture Investments Limited, a wholly owned subsidiary of the Company
- (2) The Purchasers : Fast Worth Management Limited, Objective Holdings Limited and the Other Purchasers

Fast Worth and Objective Holdings currently hold approximately 5.9% and 2.5% respectively of the entire issued share capital of DMX. Save for the aforesaid, Fast Worth, Objective Holdings and the Other Purchasers and their respective ultimate beneficial owners and their respective associates are independent parties not connected with the directors, chief executives or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates. Each of the Purchasers and their respective ultimate beneficial owners is not and has not been a director of DMX or its subsidiaries or any subsidiaries of the Group.

Assets disposed of

Pursuant to the Disposal Agreement, the Vendor has agreed to sell and the Purchasers have agreed to acquire the Sale Shares, representing 61% of the existing issued share capital of DMX, in the following proportion:

	No. of Sale Shares	% to total Sale Shares	% to DMX's capital
Fast Worth	4,393,961	72.03%	43.94%
Objective Holdings	200,000	3.28%	2.00%
Purchaser 3	265,208	4.35%	2.65%
Purchaser 4	285,139	4.67%	2.85%
Purchaser 5	325,290	5.33%	3.25%
Purchaser 6	450,402	7.39%	4.51%
Purchaser 7	180,000	2.95%	1.80%
Total	<u>6,100,000</u>	<u>100.00%</u>	<u>61.00%</u>

Prior to the Disposal, the Company, through the Vendor, owned 61% of the issued share capital of DMX. DMX and its subsidiaries have no substantial shareholder other than the Company as at the date of the Disposal Agreement. The Directors confirm that the remaining shareholders of DMX as at the date of the Disposal Agreement are independent from each other. After the Disposal, the Company has no interest in DMX.

DMX was incorporated in Bermuda on 29 October 2001 and is the ultimate holding company of the DMX Group. Prior to DMX becoming the ultimate holding company of the DMX Group on 26 July 2002, the holding company of the DMX Group was DMX (HK), which was incorporated in Hong Kong on 9 August 1994. The DMX Group commenced its business in November 1999 and is a computer system integrator principally engaged in the provision of broadband Internet equipments, network security software and business software systems in Hong Kong, the PRC and certain other countries in Asia.

The net tangible liability of the DMX Group as at 30 June 2000, based on its audited accounts (the "2000 Audited Accounts") for the 12 months ended 30 June 2000, amounted to approximately HK\$1.5 million. Based on the 2000 Audited Accounts, the DMX Group recorded a profit before taxation of approximately HK\$1.0 million and a profit after taxation of approximately HK\$1.0 million respectively for the 12 months ended 30 June 2000.

As at 31 December 2001, the net tangible assets of the DMX Group, based on its audited accounts for the 18 months ended 31 December 2001 (the "2001 Audited Accounts"), amounted to approximately HK\$99.7 million. Based on the 2001 Audited Accounts, the DMX Group recorded a profit before taxation of approximately HK\$13.8 million and a profit after taxation of approximately HK\$11.1 million for the 18 months ended 31 December 2001.

Based on the unaudited management accounts of the DMX Group for the 6 months ended 30 June 2002, the DMX Group has a net tangible asset of approximately HK\$107 million as at 30 June 2002 and a profit before taxation of approximately HK\$10.0 million and a profit after taxation of approximately HK\$8.4 million for the 6 months ended 30 June 2002.

Consideration and payment terms

The consideration for the Disposal is HK\$50 million, representing a discount of approximately HK\$10.8 million i.e. 17.8% to the net tangible asset value of DMX (HK) attributable to the Sale Shares as at 31 December 2001 based on the 2001 Audited Accounts and a discount of approximately HK\$15.3 million i.e. 23.4% to the net tangible asset value of DMX (HK) attributable to the Sale Shares as at 30 June 2002 based on the unaudited management accounts of the DMX Group for the 6 months ended 30 June 2002.

The Consideration payable by the Purchasers for the Disposal was arrived at after arm's length negotiations between the parties taking into account a number of factors, including the anticipated negative future prospect of DMX should a separate listing of which cannot be materialised in the near term as further explained under the paragraph below headed "Reasons for the Disposal and use of proceeds", the net tangible assets and the profit level of the DMX Group.

Pursuant to the Disposal Agreement, the Consideration will be payable by the Purchasers in cash in proportion to the number of Sale Shares acquired by them as follows:

1. an amount of HK\$10 million payable upon completion of the Disposal Agreement;
2. an amount of HK\$15 million payable on or before 31 December 2002; and
3. an amount of HK\$25 million, being the balance of the Consideration, payable on or before 30 April 2003.

Completion of the Disposal Agreement

Pursuant to the Disposal Agreement, completion of the Disposal Agreement shall take place on or before 31 October 2002 or such later date as the Company and the Purchasers may mutually agree in writing.

Loss on the Disposal

Based on the unaudited management accounts of the Company as at 31 August 2001 and not taking into account the balance payment ("Balance Payment") (which amount is HK\$20 million subject to adjustments as explained below) which is required to be paid by the Company for its initial acquisition of 51% of DMX (HK), the Company will record a loss from disposal of approximately HK\$95 million, which calculation is based on the Company's internal calculation and has not been reviewed by its auditors. The total loss arising from the Disposal may exceed HK\$95 million taking into account the Balance Payment. After taking into account the Balance Payment, which the Company is obliged to pay, the Group will incur a further loss on Disposal which amount is indeterminable as at the date of this announcement as further explained in the paragraph below and is expected to be accounted for in the financial year in which the respective payments are actually made.

The Balance Payment is subject to the following adjustments as set out in the announcement of the Company dated 13 November 2000 and the circular of the Company dated 5 December 2000:

- (a) if the aggregate net profit after tax of the DMX Group for the two years ending 31 December 2002 exceed HK\$50.1 million, the payment of the third instalment of HK\$10 million will be increased by an amount equal to 50% of such difference;

- (b) if the aggregate net profit after tax of the DMX Group for the two years ending 31 December 2002 is below HK\$30.5 million, the payment of the third instalment of HK\$10 million will be decreased by an amount equal to 50% of such difference;
- (c) if the aggregate net profit after tax of the DMX Group for the three years ending 31 December 2003 exceed HK\$97.8 million, the payment of the fourth instalment of HK\$10 million will be increased by an amount equal to 50% of such difference; and
- (d) if the aggregate net profit after tax of the DMX Group for the three years ending 31 December 2003 is below HK\$59.5 million, the payment of the fourth instalment of HK\$10 million will be decreased by an amount equal to 50% of such difference.

Given that the net profit after tax of the DMX Group for the years ending 31 December 2002 and 31 December 2003 are not known as at the date of this announcement, at present, it is unable to determine the final amount of the Balance Payment. The further loss on the Disposal after taking into account the Balance Payment is expected to be accounted for in the financial year in which the respective payments are actually made.

Information of DMX Group

The Group is principally engaged in the provision of systems integration services (including computer hardware), software development and the provision of other information technology services. Prior to the Disposal, the Group, through DMX, was also engaged in the provision of networking, Internet security, e-commerce and web based television solutions.

To complement its product and service offerings and to expand its business operations, the Group acquired 51% of DMX (HK) in November 2000 for a consideration of HK\$140 million, of which HK\$100 million was satisfied by cash by seven instalments in the period from January 2001 to June 2002, HK\$20 million was satisfied in March 2002 by 30,769,231 shares in the Company (representing approximately 7.83% of the then issued share capital of the Company) issued at HK\$0.65 and two instalments of HK\$10 million (i.e. the Balance Payment) each (subject to adjustments as explained above) will be satisfied in cash or, at the election of the Company, by the issue of the shares in the Company with reference to the then prevailing market price of the Company's shares within 10 business days after the date of issue of the audited accounts of DMX (HK) for the year ending 31 December 2002 and 2003 respectively. As set out in the announcement of the Company dated 7 June 2002 and the circular of the Company dated 24 June 2002, the Company entered into a conditional agreement to acquire a further 10% of DMX (HK) for a consideration of approximately HK\$28 million. The acquisition was completed in July 2002 and the consideration was fully satisfied by 49,964,413 shares in the Company (representing approximately 9.94% of the then issued share capital of the Company) issued at HK\$0.562.

The unaudited financial results and position of the Remaining Group and the DMX Group for the year ended 31 December 2001 and the six months ended 30 June 2002 are summarised below:

	For the year ended 31 December 2001	
	Remaining Group <i>HK\$ million</i>	DMX Group <i>HK\$ million</i>
Turnover	449.0	127.0
Profit/(loss) before taxation	(89.0)	14.8
Profit/(loss) after taxation	(86.0)	12.1
Net tangible assets	78.3	99.7

	For the six months ended 30 June 2002	
	Remaining Group <i>HK\$ million</i>	DMX Group <i>HK\$ million</i>
Turnover	127.7	89.0
Profit before taxation	4.2	10.0
Profit after taxation	0.04	8.4
Net tangible assets	123.0	107.0

Reasons for the Disposal and use of proceeds

On 31 July 2002, the Directors announced that a formal application for the proposed listing of the DMX Group was made to the Singapore Stock Exchange on 30 July 2002. However, the Directors also announced that the Company might not be able to meet all the requirements as set out in Practice Note 15 of the Listing Rules. In particular, the Remaining Group suffered a loss attributable to shareholders of approximately HK\$86 million for the year ended 31 December 2001 and is therefore unable to comply with the minimum profit of not less than HK\$20 million in respect of the most recent year as set out in Rule 8.05 of the Listing Rules as required under paragraph 3(c) of Practice Note 15 of the Listing Rules.

As stated in the 2001 annual report of the Company, in 2001, the information technology sector continued to be in doldrum and that the operating environment for TVH and fellow practitioners in 2001 was worse than that of 2000. The Directors consider that the significant market downturn of the information technology/Internet industry commencing in late 2000 has affected the results of the Group in 2001 in the following manner:

1. Due to substantial increase in market capacity since late 1990's, there was an apparent excess industry capacity in 2000 and 2001 and market competition during those two years was extremely severe despite that fact that there was an overall growth in worldwide information technology spending in 2001. To secure business, the Group has to adopt very aggressive pricing strategy and thus resulted in a significant decrease in gross profit margin. This was evidenced by the fact that despite the slight increase in the Remaining Group's turnover from approximately HK\$417 million in 2000 to approximately HK\$449 million in 2001, its operating margin experienced a significant drop.

2. Due to the considerable size of investment made and in particular the recruitment of additional staff by the Group in the years prior to 2001, there was a sharp increase in the operating costs of the Group, which resulted in a further deterioration of the Group's operating results in 2001. In particular, the Group's total operating expenses increased from approximately HK\$88.6 million for 2000 to approximately HK\$178.2 million for 2001. One of the Group's major operating expenses was staff costs. For 2000 and 2001, the Group has total staff costs (excluding directors' remuneration) of approximately HK\$26.5 million and approximately HK\$68.2 million respectively.
3. To combat the less-than-expected market growth, the Group began to consolidate its business during 2001, resulting in significant non-recurring expenses for the closure of some offices and lay-off of staffs that were opened/recruited in 2000/2001 in anticipation of the significant growth in 2000/2001.

In this regard, the Company submitted a formal waiver application to the Stock Exchange on 20 August 2002 from strict compliance with Rule 8.05 of the Listing Rules pursuant to paragraph 3(c) of Practice Note 15 of the Listing Rule because the Directors considered that the significant loss incurred by the Remaining Group in 2001 was solely due to a significant market downturn of the information technology/Internet industry commencing in the last quarter of 2000. The Directors also considered that the Company has taken appropriate measures to negate the impact on its profit of such market downturn. On 6 September 2002, the Listing Division of the Stock Exchange informed the Company of their decision to reject the waiver application (the "Ruling"). Based on the information submitted by the Company, the Stock Exchange was "not convinced that the reason(s) for the Remaining Group to fail the minimum profit requirement of Rule 8.05 are "due solely to an exceptional factor or a significant market downturn"", The Exchange was also "not convinced that the submitted factors were "temporary in nature" and "is not likely to continue or recur....", or that appropriate measures have been taken by the Remaining Group to negate the impact on its profit of the market downturn".

Pursuant to the listing timetable of DMX, the offer for new Shares in DMX must be completed by the end of November 2002 in order to fulfill the regulatory requirements by the Singapore Stock Exchange. In addition, it is uncertain whether the investors' interest in DMX will remain unchanged if there is any postponement in the listing timetable of DMX. In view of the above, the Directors consider it would not be in the interest of the Company to pursue the waiver application though the Company has submitted a request for a review of the Ruling by the Listing Committee of the Stock Exchange on 13 September 2002.

The Listing Committee may or may not be convinced of the arguments to be put forward by the Company in relation to the grounds for the waiver from strict compliance with Rule 8.05 of the Listing Rules and therefore may or may not agree to grant the requested waiver.

As the Company is not able to meet the requirement of Rule 8.05 pursuant to paragraph 3(c) of Practice Note 15 of the Listing Rules, the DMX Group cannot proceed with the Proposed Spin-off in the near future if DMX remains as a subsidiary of the Company. The Directors considered that there would be serious damaging effects to the operations of the DMX Group which in turn will affect the operations of the Group if DMX could not obtain a separate listing status as soon as possible and would cause a significant diminution in the value of the Group's investment in DMX.

Though DMX Group was profit making for the 18 months ended 31 December 2001 and 6 months ended 30 June 2002, the Directors are of the view that without the funding raised from a separate listing, the DMX Group is unlikely to maintain the results and growth it currently enjoys. Also, the Directors consider that in view of the substantial financial resources required for the business operations and growth of DMX Group, the current cash position of DMX would not be sufficient to finance the future growth of DMX, a crucial factor for determination of the value of DMX. Therefore, the Directors expect, in a situation where DMX does not obtain a listing and remains as a subsidiary of TVH, the results of DMX will suffer considerably (which in turn will affect the results of the Group) because of: (i) lack of additional funding to support its operation and growth; and (ii) loss of qualified staff based on the Directors' understanding from the management of DMX Group, who expect to receive stock options of DMX's shares after the listing. In such a situation, despite the fact that the DMX Group has been profitable, a significant financial and management burden would arise on part of the Group to support the operation of DMX which will in turn affect other businesses of the Group. The Directors consider that although the Group will immediately incur a loss on the Disposal of approximately HK\$95 million, the Disposal is in the best interest of the Company in view of the following:

- (i) despite the fact that the DMX Group has been profitable, there is high uncertainty of the future performance of DMX without additional funding and loss of qualified staff;
- (ii) the Disposal will spare the Group from giving further financial support to DMX and will allow the Group to focus its financial and management resources on other businesses of the Group; and
- (iii) the consideration will enhance the cash position for the Group.

Considering the potential negative impact on the future performance and hence potential diminution of the value of the DMX Group as a result of its failure to obtain a separate listing in the near future, the Directors were of the view that despite the loss on the Disposal of approximately HK\$95 million and the further loss on the Disposal after taking into account the Balance Payment which is expected to be accounted for in the financial year in which the respective payments are actually made, it was beneficial to the Company and its Shareholders as a whole to dispose of its entire interest in DMX for a consideration of HK\$50 million.

The proceeds from the Disposal will be used as general working capital of the Group.

General

The Disposal constitutes a discloseable transaction pursuant to Rule 14.12(1) of the Listing Rules. A circular containing, among other things, details of the Disposal will be despatched to the Shareholders as soon as possible.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms and expressions shall have the respective meanings set out opposite them below:

“Company”	Technology Venture Holdings Limited, the Shares of which are listed on the main board of the Stock Exchange
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“Consideration”	The consideration of HK\$50 million payable by the Purchasers pursuant to the Disposal Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Shares to the Purchasers by the Vendor for a consideration of HK\$50 million pursuant to the Disposal Agreement
“Disposal Agreement”	the agreement dated 3 October 2002 and entered into between the Vendor and the Purchasers in relation to the Disposal
“DMX”	DMX Technologies Group Limited, a company incorporated in Bermuda and the ultimate holding company of the DMX Group
“DMX Group”	DMX (HK) and its subsidiaries
“DMX (HK)”	DMX Technologies (Hong Kong) Limited, a wholly owned subsidiary of DMX
“Fast Worth”	Fast Worth Management Limited, a company wholly owned by Mr. Cheung Chung Wah, and an independent party not connected with the directors, the chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Objective Holdings”	Objective Holdings Limited, a company beneficially owned by Ms. Wong Mei Yuk and Ms. Leung Yee Man, and an independent party not connected with the directors, the chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“Other Purchasers”	a total of five private investment companies, all of which (including their respective ultimate beneficial owners) are independent parties not connected with the directors, the chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates
“PRC”	The People’s Republic of China, which for the purpose of this announcement excludes Hong Kong
“Proposed Spin-off”	the proposed listing of the shares of DMX (or the ultimate holding company of the DMX Group) on the Singapore Stock Exchange
“Purchasers”	Fast Worth, Objective Holdings and the Other Purchasers

“Remaining Group”	the Company and its subsidiaries other than DMX and its subsidiaries
“Sale Shares”	a total of 6,100,000 existing shares of US\$1.00 each in the capital of DMX, representing 61% of the existing issued share capital of DMX
“Shareholders”	shareholders of the Company
“Singapore Stock Exchange”	The Singapore Exchange Securities Trading Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Technology Venture Investments Limited, a wholly owned subsidiary of the Company

By order of the board
Technology Venture Holdings Limited
Chan Tze Ngon, Ron
Chairman

Hong Kong, 8 October 2002

* *for identification only*

*Please also refer to the published version of this announcement in
The Standard and Hong Kong Economic Times.*