



CHINA DATA  
BROADCASTING

# CHINA DATA BROADCASTING HOLDINGS LIMITED

(中華數據廣播控股有限公司)\*

*(incorporated in Bermuda with limited liability)*

## RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

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## HIGHLIGHTS

The year 2001 was a very difficult year for the data broadcasting industry. The Group's turnover dropped by 76% down to HK\$6 million, which led to a loss for the Group of HK\$11 million for the year.

In response to the difficult external environment, the Group focused its resources in strengthening its research and development capability and has managed to build a very good foundation for the Group's future development.

The Group's financial position remains strong. The Group's cash balance was over HK\$28 million as at 31 December 2001 versus its total liabilities of less than HK\$6 million as at that date.

As a result of the Group's prudent attitude towards the forthcoming National Standard, the Group had scaled down certain of its business activities such as postponing the launch and provision of certain new products and systems, signing up of TV network operators and content providers. The scaling down of the Group's business activities has affected the Group's achievement in certain of its business objectives set out in the Prospectus dated 17 January 2000.

## RESULTS

The board of directors of China Data Broadcasting Holdings Limited (“the Company”) announces the audited results of the Group for the year ended 31 December 2001 together with the comparative figures for the last year, as follows:

	Notes	2001 HK\$'000	2000 HK\$'000
TURNOVER	2	6,036	25,259
Cost of sales		<u>(7,133)</u>	<u>(24,409)</u>
Gross profit/(loss)		(1,097)	850
Other revenue		798	1,333
Selling and distribution costs		(769)	(756)
Administrative expenses		(4,772)	(6,667)
Other operating expenses		<u>(8,796)</u>	<u>(1,953)</u>
OPERATING LOSS BEFORE TAX		(14,636)	(7,193)
Tax	4	<u>—</u>	<u>—</u>
LOSS BEFORE MINORITY INTERESTS		(14,636)	(7,193)
Minority interests		<u>3,350</u>	<u>1,199</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(11,286)</u>	<u>(5,994)</u>
LOSS PER SHARE	5		
Basic		<u>(3.55) cents</u>	<u>(1.94) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

1. **Group Reorganisation and Basis of Presentation**

The Company was incorporated in Bermuda on 22nd September, 1999 and remained inactive until 11th January, 2000 when the reorganisation (the “Reorganisation”) of the Group was completed and the Company became the holding company of the Group. The Reorganisation has been accounted for by the Company using the merger accounting method in accordance with Statement of Standard Accounting Practice No. 27 “Accounting for group reconstructions”.

2. **Turnover**

Turnover represents the invoiced value of goods sold and services rendered, net of value-added tax, business tax, and after allowance for goods returned and trade discounts.

Revenue from the following activities has been included in turnover:

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Sales of data broadcasting hardware and software	3,684	23,380
Income from the provision of data broadcasting and related services	<u>2,352</u>	<u>1,879</u>
	<u><u>6,036</u></u>	<u><u>25,259</u></u>

### 3. Segment Information

The following table presents revenue and loss information for the Group's revenue segments.

	Sales of broadcasting hardware and software		Provision of data broadcasting and related services		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>3,684</u>	<u>23,380</u>	<u>2,352</u>	<u>1,879</u>	<u>6,036</u>	<u>25,259</u>
Segment results	<u>(6,250)</u>	<u>(1,472)</u>	<u>566</u>	<u>367</u>	(5,684)	(1,105)
Interest income and unallocated gains					798	1,333
Unallocated corporate expenses					<u>(9,750)</u>	<u>(7,421)</u>
Operating loss before tax					(14,636)	7,193
Tax					<u>—</u>	<u>—</u>
Loss before minority interests					(14,636)	(7,193)
Minority interests					<u>3,350</u>	<u>1,199</u>
Net loss from ordinary activities attributable to shareholders					<u>(11,286)</u>	<u>(5,994)</u>
Other segment information:						
Amortisation of an intangible asset	110	102	—	—	110	102
Impairment of an intangible asset	3,120	—	—	—	3,120	—
Depreciation	—	—	—	—	196	175
Provision for doubtful debts	1,227	969	17	2	1,244	971
Provision for prepayments, deposits and other receivables	223	254	—	—	223	254
Minimum subscriptions payment	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,769</u>	<u>—</u>

The Group's turnover were all derived from the People's Republic of China (the "PRC").

### 4. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2000: Nil).

Under the Income Tax Law of the PRC, the Company's subsidiary, Tianjin Tiancai Network Software Co., Ltd. ("Tiancai Network") is subject to state income tax of 30% and local income tax of 3%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network is exempted from state income tax for the first two years of operation and thereafter, is entitled to a 50% relief from state income tax for the third to fifth years inclusive, starting from the year 2000 when it first became profitable in accordance with relevant accounting principles generally accepted in the PRC and the relevant Income Tax Law of the PRC. Tiancai Network is also exempted from local income tax for the first five years of operation starting from the year 2000 when it first became profitable.

The Group did not have any significant unprovided deferred tax liabilities in respect of the year.

## 5. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$11,286,000 (2000: HK\$5,994,000), and the weighted average of 318,000,000 (2000: 309,180,822) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2001 and 2000 has not been calculated as the impact of the outstanding share options was anti-dilutive.

## 6. Reserves

Movement of reserves during the year is as follows:—

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2000	—	855	—	307	—	146	1,338
Share issued on the Placing	35,400	—	—	—	—	—	35,400
Share issued on over-allotment	5,310	—	—	—	—	—	5,310
Share issue expenses	(7,873)	—	—	—	—	—	(7,873)
Capitalisation for unpaid shares	(4,300)	—	—	—	—	—	(4,300)
Exchange realignments	—	—	76	—	—	—	76
Net loss for the year	—	—	—	—	—	(5,994)	(5,994)
At 31 December 2000 and at 1 January 2001	28,537	885	76	307	—	(5,848)	23,957
Exchange realignments	—	—	(18)	—	—	—	(18)
Net loss for the year	—	—	—	—	—	(11,286)	(11,286)
Transferred from retained profit of a subsidiary in PRC	—	—	—	—	676	(676)	—
At 31 December 2001	<u>28,537</u>	<u>885</u>	<u>58</u>	<u>307</u>	<u>676</u>	<u>(17,810)</u>	<u>12,653</u>

## DIVIDENDS

The directors do not recommend the payment of any dividend for the year (2000: Nil).

## BUSINESS REVIEW

The year 2001 was a very difficult year for the data broadcasting industry. The ever-changing technological development and the yet to be clear government policy, the prolonged depression of the PRC stock market and also the entry of new competitors altogether created an uncertain market with intense competition. Moreover, it was discovered that there were fake PC plug-in boards, which were sold under the Group's brand name. Although the counterfeiting activity was terminated shortly after it had been discovered, it had caused damages to the Group's sale during the period. During the reported period, the policy of the PRC government towards the TV network operating system changed. One of the main changes being the reorganizing and merging of the TV network operators originally belonging to different TV stations at various levels. As a result, the overall number of TV network operators reduced and their inter-relationship changed, which have caused the agreements between the Group and certain TV network operators becoming invalid.

The Group's cooperation with certain TV network operators was further affected by the technological development during the period. The high-speed broadband DVB technology has caused a number of TV network operators to give up the original VBI data broadcasting technology provided by the Group. To cope with the situations, the Group developed the dynamic encrypted data broadcasting system. The system allows the transmission of information under an encrypted channel and hence, effectively protects the TV network operators from loss of revenue through unauthorized use of its information. The system enables the Group to re-enter cooperation agreement with the TV network operators and also, provides ample space for the Group's future development.

As the National Standard for the data broadcasting industry has not formally been released, the Group adopted a prudent attitude towards it and had scaled down certain of its business activities such as postponing the launch and provision of certain new products and systems, signing up of TV network operators and content providers. The scaling down of the Group's business activities has affected the Group's achievement in certain of its business objectives set out in the Prospectus dated 17 January 2000.

One of the Group's important service contents is the real-time stock quotation for the PRC stock market. As a key player in the industry, the relevant authorities appointed the Group to assist them to develop their securities information business operations through the Group's data broadcasting technologies. The agreements enabled the Group to secure an authenticated source of stock information. The appointments last for only one year and were terminated at the end of the year 2001. Due to the difficult environment, the Group has not secured enough subscribers for the authenticated information and may have incurred a liability for the unachieved minimum subscriptions, which have been fully provided for in the accounts.

The Group continued in its customer-oriented services. Through a well-designed marketing plan and the support of the TV network operators, the Group has developed a nationwide sales distribution network for its products.

## **RESEARCH AND DEVELOPMENT**

The management firmly believes that research and development capability is crucial to the long-term success of the Group. In order to further enhance its capability, the Group cooperated with Nexus, a reputable Northern European company. Through the cooperation, the Group secured the know-how of the Conditional Access system. The know-how greatly strengthens the Group's technological capability in the development of dynamic encryption system. The system would allow the transmission of data under an encrypted channel and hence, allows the transmission of private information in great security and reliability.

During the year, the Group successfully developed Model V and VI of data broadcasting transmission modules and also Model VIII and IX of data broadcasting reception modules. In respect of application software, the Group succeeded in the development of the second-generation intelligent stock analysis software.

The Group also obtained remarkable results in the development of dynamic encryption technology, which have already been adopted by 32 TV network operators to broadcast their data.

## FINANCIAL REVIEW

The Group's turnover dropped by 76% down to HK\$6 million, which led to a loss for the Group of HK\$11 million for the year. The loss was also due to provisions made on the Group's debtors and stocks and a written-off of an intangible asset. Pursuing its conservative strategy, the management continues to adopt a prudent attitude towards the estimated net realizable/recoverable value of the assets concerned and has written down the value of the assets concerned to their respective estimated net realizable/recoverable value.

Despite of the unsatisfactory results, the Group's financial position remains strong. The Group's cash balance was over HK\$28 million as at 31 December 2001 versus its total liabilities of less than HK\$6 million as at that date.

The Group does not have any borrowings and all of its liabilities are primarily trade debts. The net asset value per share was HK\$0.06. The gearing ratio was 27% on the basis of total liabilities divided by shareholders' fund. At present, the Group does not have a funding need and does not have any charges on its assets.

The Group has only negligible exchange exposure. Except for maintaining a liaison office in Hong Kong, all of the Group's operations are in the PRC. Accordingly, the Group's receipts and payments are essentially in Renminbi apart from paying in Hong Kong dollars the operating expenses of the Hong Kong liaison office.

As at 31 December 2001, the Group had approximately 28 (2000: 54) full-time employees. The drastic reduction was essentially a result of the depressed market environment. It was also because the Group acquired more service contents from outside instead of relying on internal production. Total staff costs amounted to HK\$2.1 million during the year (2000: HK\$2.4 million). The Group remunerates its employees based on their performance with reference to the employees' experience and the related industry practice. The Group also operates a share option scheme and provides structured in-house training for its employees.

The Group's turnover was all derived from the PRC and can be broadly classified into sales income and service income. Sales income represents the selling of data broadcasting hardware and software and service income represents primarily annual subscription received from the Group's service contents subscribers and also provision of the related data broadcasting services. Due to the difficult market environment as mentioned earlier, sales of the hardware and software dropped from last year's HK\$23 million to this year's HK\$4 million. However, the revenue from service remains steady and recorded an increase of 25% from that of last year.

One of the Company's subsidiary ("Tiancai Network") is currently a defendant in a lawsuit brought by a supplier during the year claiming approximately HK\$99,000 together with the interest and cost relating to the supply of raw material. A judgement in relation to this lawsuit was firstly reached by the District Court in Tianjin on 11 December 2001 and was in favour of Tiancai Network, and the aforesaid supplier has filed an appeal against the judgement on 22 December 2001. On 25 February 2002, the Court of Appeal in Tianjin withdrew the previous judgement made by the District Court. According to the instructions of the Court of Appeal, the case should be reheard by the District Court. Since the outcome of the lawsuit could not be determined with reasonable certainty at this stage, no provision has been made in the accounts.



## **OUTLOOK**

The Group has put substantial resources and effort in strengthening its R&D capability. The management believes that in the year to come, the Group would be able to capitalize on its technical strength for an income. The Group will continue focusing on the PRC market, and relying on its established leading advantages in the data broadcasting industry, the Group will emphasise on developing multimedia data broadcasting transmission and reception modules, forming alliance with TV network operators and exploring opportunity in provision of its technical services.

Capitalising on its technical capability on the digital world, the Group is very confident that it could build up steady income stream by providing technical services in this area. Preliminary discussions have been carried out with potential parties and the management is optimistic on the possible outcome. Complying with the Listing Rules, further announcement will be made by the Company in due course should a discussion have been materialized.

In regard to the market for the TV set top box, the management considers that it still takes time to develop and that the Group is not going to invest substantial resources for the production and development of the TV set top box in the coming year.

The management believes that research and development is important in the long-term development of the Group's business. Accordingly, the Group will continue to invest resources to develop sophisticated products. Focus is on the high-speed broadband data broadcasting system and also the related multimedia products and mechanics such as the portable multimedia voice and video recording devices.

The Group will also capitalize on its brand name advantages, stressing on the establishment of its sale and after-sale network in order to further enlarge the Group's market share. The Group would continue to recruit new authorized distributors in all the major cities of the PRC and conduct vigorous advertisement campaigns in TV, newspapers and magazines in order to achieve the greatest publicity.

The Group will pursue its established strategy. Based on its solid foundation built, the Group will surpass its competitors by its sophisticated technology and marketing technique. Looking ahead, the management believes that the Group can further consolidate its leading position in the data broadcasting industry and create value for its shareholders.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the GEM Listing Rules 5.28 to 5.39 concerning board practices and procedures throughout the financial year.

By Order of the Board  
**Professor Kou Jisong**  
*Chairman*

Hong Kong, 27th March, 2002

*This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least seven days from its date of publication.*

*\* For identification purposes only*