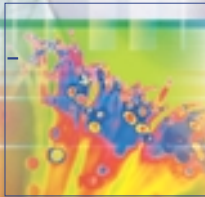




**CHINA DATA
BROADCASTING**



China Data Broadcasting Holdings Limited

中華數據廣播控股有限公司*

(Incorporated in Bermuda with limited liability)



* For identification only

2007
ANNUAL REPORT 2007



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

GEM 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 of <http://www.hkgem.com> operated by the Stock Exchange. Companies listed on GEM 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.

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CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	No. 3 Hua Tian Road Huayuan Industry Area Tianjin High-Tech Industry Park Tianjin PRC
Hong Kong liaison office	16th Floor, Hing Yip Commercial Centre, 272-284 Des Voeux Road Central, Hong Kong
Web Site	http://www.databroadcasting.com.hk
E-mail Address	lobson@databroadcasting.com.hk
Compliance officer	Mr. YAO Xiao Dong
Qualified accountant	Mr. CHAI Chi Man <i>FHKSA FCCA</i>
Company secretary	Mr. CHAI Chi Man <i>FHKSA FCCA</i>
Authorised representatives	Prof. KOU Jisong Mr. Chai Chi Man <i>FHKSA FCCA</i>
Members of the audit committee	Mr. LI Shan Hai Mr. WANG Fu Sun Prof. LI Min Qiang
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Stock Exchange	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

CORPORATE INFORMATION

Stock Code	8016
Sponsor	Oriental Patron Asia Limited <i>GEM-Registered Sponsor</i> 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
Auditors	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong
Legal Advisers	Richards Butler <i>International Law Firm</i> 20th Floor, Alexandra House 16-20 Chater Road Hong Kong
Bermuda principal share registrar and transfer office	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 2/F Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal banker	International Bank of Asia Limited Shop 2, G/F., Wu Chung House 213 Queen's Road East Hong Kong

The Group continues to be engaged in the business of data broadcasting in the PRC. Its principal activities include the research, development and sales of data broadcasting hardware and software, the related system integration, technical support and consultancy service, the planning, sourcing and production of multimedia contents for data broadcasting, and the sale of software.

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.

In response to this 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.

BUSINESS REVIEW

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.

CHAIRMAN'S STATEMENT

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.

As at 31 December 2001, the Group had a contingent liability of approximately HK\$99,000, details of which are set out in note 21 to the financial statements.

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 GEM 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.

Professor Kou Jisong
Chairman

27 March 2002

COMPARISONS OF BUSINESS PROGRESS

Pursuant to the business objectives as set out in the prospectus dated 17th January, 2000

Actual business progress/changes to business objectives (if any)

Sales of PC plug-in boards

- Launch FC data broad-casting PC plug-in board model VIII and IX
- Target sales volume 170,000 units

PC plug-in board model VIII was launched in August 2001, and model IX was launched in December 2001.

Sold 15,101 units up to 31st December, 2001.
Reasons for failure to achieve anticipated target :

1. Depression in the PRC stock market, resulting in the drop in demand for PC plug-in boards.
2. Impact from the emergence of new technology and products.
3. Keen market competition, and the increase of new competitors.

Sales of TV set top box

- Launch financial TV set top box model V and model VI
- Launch multimedia TV set top box model III and model V
- Target sales volume
 - Financial 150,000 units
 - Multimedia 120,000 units

Sales of TV set top boxes were not made in the current year.

As a result of changes in the market atmosphere, the Group consider that a prosperous market for the TV set top boxes has not been in place. As such, the Group has decided that it will not launch these products to the market in the near future.

Sales of software

- Target sales volume 68,000 units

Sold 6,443 units as at end of December 2001.

Due to reduction in the sales of PC plug-in boards, sales of its accessory software also reduced.

COMPARISONS OF BUSINESS PROGRESS

Subscription income

- Target accumulated number of subscribers 267,800 subscribers
- Total number of subscribers was 9,235 as at December 2001. The shortfall was mainly caused by the failure to achieve the target number of cooperative TV network operators. Please see below for the reasons of shortfall concerning the number of cooperative TV network operators.

Number of strategically allied TV network operators

- Total (with or without cooperative agreements) 343, of which 199 are under cooperative agreements
- As at end of 2001, total number of strategically allied TV network operators was 106, of which 5 are under cooperative agreements. Reasons for failure to achieve target are as follows:-

1. Under the cooperative agreements, the Group will make use of its FC technology to broadcast data. The National Standard concerning FC technology remains unclear, and as such, the Group decided to slow down the pace of signing of cooperative agreements with TV network operators in order to avoid any possible loss that may arise from the release of any new National Standard concerning the FC technology.
2. Revisions of the policies of the PRC government on TV broadcasting system have caused most TV stations to undergo merging and reorganising, causing impact to the promotion of the data broadcasting business of the Group.
3. Technological development, such as the new broadband technology, affected the promotion of the VBI and FC data broadcasting technology of the Group.
4. The entrance of new competitors has caused some TV network operators to give up their strategic alliance with the Group.

COMPARISONS OF BUSINESS PROGRESS

Strategically allied content provider

- Establish strategic alliance with 40 new content providers
- During the period, the Group established 2 new content providers. Reasons for failure to achieve anticipated target :
1. Due to the less than expected cooperative TV network operators and subscribers that the Group has attained, the need to establish more content providers diminished.
 2. The Group considers that the content itself instead of the number of content provider is more important.

Marketing

Sales and after sales network

- Engage 140 new authorised distributors
- Engaged 28 authorised distributors.
As a result of the depressed PRC market environment and inadequate demand, the Group engaged less authorized distributors.

Promotion activities

- Advertise on TV and in popular newspapers, periodicals or magazines
- Advertisements made on TV and in newspapers. A large portion of costs was borne by TV network operators and distributors and hence, the actual costs incurred by the Group is minimal and amounted to only Rmb66,000.

Market research

- Conduct market research on products for PRC interactive broadband transmission system
- Work was done according to plan and obtained satisfactory results.

COMPARISONS OF BUSINESS PROGRESS

Operation and production

Transmission modules

- Provide 120 new FC data broadcasting transmission modules to TV network operators
- Provide 140 new transmission modules for VBI data broadcasting to TV network operators

Provided 2 new FC data broadcasting transmission modules to TV network operators. Please refer to the explanation on "Number of strategically allied TV network operators".

Provided 32 new transmission modules for VBI data broadcasting to TV network operators.

The TV network operators preferred to use the more advanced, broadband technology to broadcast data.

Reception modules

- PC plug-in boards - 170,000 units
- TV set top boxes
 - Financial - 150,000 units
 - Multimedia - 120,000 units

Approximately 21,700 units of PC plug-in boards were produced. See reasons under "Sales of PC plug-in boards".

None produced. See reasons under "Sales of TV set top box".

Contents for data broadcasting

- Start to produce distance education contents for 3 subjects of each of the 5 grades of primary education, and for further education and/or professional examination
- Produce new contents by sourcing the same from electronic newspaper and magazine publishers and financial information providers

Distance education contents were not produced. Instead, the Group obtained the contents through the cooperation with strategically allied content providers for costs reasons.

New contents were obtained from existing information providers to enrich the Group's contents base.

COMPARISONS OF BUSINESS PROGRESS

Research and development

- Acquire computer hardware and software for product development
- There was delay on the Group's plan on new product development as a result of the Group's prudent attitude towards the National Standard. The amount spent on this area was only Rmb169,000.

Transmission modules

- Develop FC data broadcasting transmission module model VI and VII
- As the National Standard for the FC data broadcasting is still not available, the Group postponed the development of these FC data broadcasting transmission modules.

- Develop VBI data broadcasting transmission module model VIII and IX
- Succeeded in developing VBI data broadcasting transmission module model VIII and IX.

- Continue to research and develop of high speed broadband data broadcasting system
- The work on DVB high speed broadband data broadcasting system was in progress.

Reception modules

- Develop multimedia TV set top box model II
- The work was closely followed on the development of the National Standard.

Software

- Develop application software for TV set top boxes
- The Group succeeded in the development of first and second generation stock analysis software.

Sourcing of contents

- Acquire education contents for 3 subjects of each of the 5 grades of primary education and contents for further education and professional examinations
- The contents were obtained through cooperation of the strategically allied content providers.

- Source or acquire new contents from electronic newspaper and magazine publishers and financial information providers
- Purchased or sourced new contents from existing electronic newspaper and magazine publishers and financial information providers.

COMPARISONS OF BUSINESS PROGRESS

Human resources

Management	8	5
Research and development		
- hardware	50	4 (see note 1 below)
- software	50	4 (see note 1 below)
Information service	50	2 (see note 2 below)
Sales and marketing	25	10 (see note 3 below)
Finance and administration	3	3
Total	186	28

Note :

1. The number decreased as cooperation partners for the R&D of new products had provided more support than anticipated. Moreover, the delay in the planned development of FC data broadcasting and TV set top box also caused the decrease.
2. Cooperation with ICP regarding contents for distance education, and therefore not necessary to recruit more content production staff.
3. The number decreased as a result of the depressed market environment and insufficient demand.

COMPARISON OF USE OF PROCEEDS

Up to 31st December 2001, the Group had utilised about HK\$8.4 million of the Placing proceeds. This represents approximately 31% of the HK\$27.1 million as stated in the Prospectus.

The under utilisation is mainly due to :

1. Approximately 63% of the planned use was expected to be utilised as working capital for the production of transmission and reception modules. As a result of the Group's prudent attitude towards the forthcoming National Standard, the production schedule had been delayed accordingly.
2. The Group has also managed to have substantial savings on promotions and advertising costs since the Group was able to utilise free resources of its allied TV network operators and content providers such as newspapers for the Group's promotion and advertising activities.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Professor Kou Jisong, aged 54, is the founder of the Group and the chairman of the Company. He is responsible for the formulation of corporate strategy and future business direction of the Group. He is a professor and a supervisor to Ph.D. candidates and a member of the Chinese People's Political Consultative Conference. He is currently the vice-chancellor of Tianjin University and the chairman of Genius Co., Ltd. ("Genius"). He was the head of the Research Institute of System Engineering and the dean of the School of Management of Tianjin University before being appointed the vice-chancellor. He obtained a Ph.D. degree in systems engineering from Tianjin University. He is the brother-in-law of Mr. Wang Guang Xin.

Ms. Bu Dong Mei, aged 47, is one of the founding staff members of the Group and is responsible for the general management and operation of the Group. Before joining the Group in 1997, she worked for Tianjin University as a senior engineer and as a manager of Tianjin University Industrial Development Company. She had 15 years' experience in research and marketing.

Professor Li Min Qiang, aged 36, is one of the founding staff members of the Group and is responsible for research and development of new products. He is a professor and the head of Department of Management Information Systems of the School of Management of Tianjin University. Prior to joining the Group in 1997, he had 10 years' experience in the research and development of information systems. He obtained a Ph.D. degree in systems engineering from Tianjin University.

Mr. Wang Guang Xin, aged 44, is responsible for the production and general administration of the Group. Prior to joining the Group, he had been the department manager of Genius Co., Ltd. since 1993. He is the brother-in-law of Professor Kou Jisong.

Mr. Yao Xiao Dong, aged 36, is one of the founding staff members of the Group and is responsible for the Group's market development. He is also the compliance officer of the Company for the purpose of the GEM Listing Rules. Prior to joining the Group in 1997, he had 10 years' experience in the research of economic policy. He obtained a Bachelor of Economics degree from Nankai University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Shan Hai, aged 62, is an independent non-executive director appointed by the Company in January 2000. He graduated from the People's University of China. He had worked for the Tianjin Municipal Government for over 20 years as an official in the Policy Research Office and as the vice director of Tianjin Committee for Economic System Reform of Tianjin Municipality. He joined the Tianjin Securities Regulatory Office in 1995 and had been its director before his retirement in July 1999.

Mr. Wang Fu Sun, aged 69, is an independent non-executive director appointed by the Company in January 2000. He had worked for the PRC government for over 30 years and had held positions in the Ministry of Foreign Affairs and the State Education Commission.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chai Chi Man, aged 39, is the group financial controller and company secretary of the Company. He is a Certified Public Accountant and obtained a Master's degree in finance and investment from the University of Exeter, the United Kingdom. He is also a fellow member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in September 1999, he had 15 years' experience in auditing and accounting and had worked for an international accounting firm as well as a number of listed companies and sizable organisations.

Mr. Xiong Kai, aged 32, obtained a Ph. D degree in biomedical engineering from Tianjin University. He joined the Group in December 2001 and is now the general manager of Tianjin Tiancai Network Software Co., Ltd. Prior to joining the Group, he has got extensive research experiences in the area of digital information technology.

Mr. Ni Yue, aged 48, has years of experience engaged in financial management, and has worked for the Sino-American Joint Venture Otis Elevator Company. He joined Tianjin Tiancai Network Software Co., Ltd in 2001 as the manager of the finance department. He holds a Bachelor degree in accounting from the Tianjin Finance College.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the Annual General Meeting of China Data Broadcasting Holdings Limited (the "Company") will be held at Room 4201-7 Cosco Tower, 183 Queen's Road Central, Hong Kong on Friday, 26th April 2002 at 9:30 a.m. for the purpose of considering and, if thought fit, inter alia, passing the following resolution as an ordinary resolution of the Company:

1. To receive and consider the audited consolidated financial Statements and the reports of the Directors and Auditors for the year ended 31st December, 2001.
2. To re-elect retiring Directors pursuant to the Company's Bye-laws and to authorise the board of directors to fix their remuneration.
3. To re-appoint the auditors of the Company and authorise the Directors to fix their remuneration.
4. To consider as Special Business, and if thought fit, to pass with or without amendments, the following resolutions as an Ordinary Resolution:

THAT:

- (A) subject to paragraph (C) below, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements or options which might require the exercise of such power be and is hereby approved generally and unconditionally;
- (B) the approval in paragraph (A) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted and issued, or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (a) a Rights Issue; or (b) the grant or exercise of any option under the share option scheme of the Company; or (c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company in force from time to time; or (d) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
 - (i) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

- (ii) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution).

and the authority pursuant to paragraph (A) of this Resolution shall be limited accordingly;

- (D) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is 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 Bye-laws of the Company, the Companies Act of the Bermuda or any other applicable law of Bermuda to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their holdings of such shares, subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong.

- 5. As special business, to consider and, if thought fit, to pass the following as an Ordinary Resolution:–

“THAT:–

- (A) subject to paragraph (B) below, the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to repurchase its shares in the capital of the Company on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the Companies Act of Bermuda and all other applicable laws in this regard, be and is hereby approved generally and unconditionally;

NOTICE OF ANNUAL GENERAL MEETING

(B) the aggregate nominal amount of shares authorised to be repurchased or agreed conditionally or unconditionally to be repurchased by the Directors of the Company pursuant to the approval in paragraph (A) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date this Resolution and the said approval shall be limited accordingly; and

(C) for the purposes of this Resolution:—

“Relevant Period” means the period from the passing of this Resolution until whichever is 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 either by the Bye-laws of Company, the Companies Act of Bermuda or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

6. As special business, to consider and, if thought fit, to pass the following as an Ordinary Resolution:—

“THAT conditional upon the passing of Ordinary Resolutions numbered 4 and 5 as set out in the Notice convening this meeting, the aggregate nominal amount of the number of shares in the capital of the Company that shall have been repurchased by the Company after the date thereof pursuant to and in accordance with the said Ordinary Resolution 5 shall be added to the aggregate nominal amount of share capital that may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to the general mandate to allot and issue shares granted to the Directors of the Company by the said Ordinary Resolution 4.”

On behalf of the Board

Professor Kou Jisong

Chairman

Hong Kong, 28 March 2002

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- i. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
- ii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised.
- iii. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's Branch Registrars in Hong Kong, Hong Kong Registrars Limited of 2/F Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong and in any event not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).
- iv. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 53.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group prepared on the bases set out in the note below is as follows:

RESULTS

	Year ended 31 December				
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	6,036	25,259	12,559	7,294	293
Cost of sales	(7,133)	(24,409)	(10,023)	(5,770)	(222)
Gross profit/(loss)	(1,097)	850	2,536	1,524	71
Other revenue	798	1,333	8	—	—
Selling and distribution costs	(769)	(756)	(1,014)	(315)	(12)
Administrative expenses	(4,772)	(6,667)	(1,130)	(480)	(186)
Other operating expenses	(8,796)	(1,953)	(250)	—	—
OPERATING PROFIT/(LOSS) BEFORE TAX	(14,636)	(7,193)	150	729	(127)
Tax	—	—	—	—	—
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(14,636)	(7,193)	150	729	(127)
Minority interests	3,350	1,199	(134)	(219)	38
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(11,286)	(5,994)	16	510	(89)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December		
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	32,453	47,274	5,693
TOTAL LIABILITIES	(5,608)	(4,396)	(3,369)
MINORITY INTERESTS	(6,242)	(10,971)	(786)
	20,603	31,907	1,538

Note: The results of the Group for each of the three years ended 31 December 1999, 1998 and 1997 and the assets and liabilities of the Group as at 31 December 1999 have been prepared on a pro forma basis as if the Group structure at 11 January 2000 had been in existence since 1 January 1997.

REPORT OF THE DIRECTORS

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in note 18 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 19 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2001, the Company did not have any reserves available for distribution. In addition, the Company's share premium account, in the amount of approximately HK\$28,537,000, may be used for distribution in the form of fully paid bonus shares.

PENSION SCHEME AND COSTS

The Group's employees in Hong Kong have joined the mandatory provident fund scheme. Employees in the People's Republic of China ("PRC") are enrolled in the mandatory central pension scheme operated by the PRC Government. Details of the employer's pension costs charged to the profit and loss account for the year are set out in note 6 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 24% of the total sales for the year and sales to the largest customer included therein amounted to approximately 9%.

Purchases from the Group's five largest suppliers accounted for approximately 68% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 38%.

None of the directors of the Company or any of their associates or any shareholders (which, to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Professor Kou Ji Song (*Chairman*)

Ms. Bu Dong Mei

Professor Li Min Qiang

Mr. Wang Guang Xin

(appointed on 28 June 2001)

Mr. Yao Xiao Dong

Mr. Dong Jian Xin

(ceased to be Director on 24 April 2001)

Independent non-executive directors:

Mr. Li Shan Hai

Mr. Wang Fu Sun

In accordance with clauses 86 and 87 of the Company's bye-laws, Mr. Yao Xiao Dong and Mr. Wang Guang Xin, will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors of the Company are subject to retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 14 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing from 24 January 2000. The contracts shall be continuing thereafter unless and until terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Under the terms of the Company's share option scheme approved by the shareholders on 11 January 2000, the board of directors of the Company may, at their discretion, invite any employee of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on GEM on 24 January 2000. No options have been granted to the directors up to the date of this report.

Apart from the foregoing, and other than as disclosed under the headings "Directors' interests in shares" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2001, the interests of the directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Name of director	Number of issued ordinary shares of HK\$0.025 each in the Company and nature of interest			
	Personal	Family	Corporate	Other
Professor Li Min Qiang	—	—	—	17,190,000
Mr. Wang Guang Xin	—	—	—	17,190,000
Mr. Yao Xiao Dong	—	—	—	17,190,000

Note: 171,900,000 of the Company's shares are held by Ultra Challenge Limited ("Ultra Challenge") which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust include Mr. Wang Guang Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong. Each of Mr. Wang Guang Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong is deemed to be interested in 17,190,000 shares by virtue of their 10% interest under the trust.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

SHARE OPTION SCHEME

On 11 January 2000, the Company approved a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to full-time employees ("Employees") of the Company and its subsidiaries (including executive directors of the Company and its subsidiaries) to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time other than: (i) shares issued pursuant to this Scheme; and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date when the Scheme is adopted. The subscription price shall be determined by the board of directors of the Company. The subscription price shall be a price determined by the board of directors at its absolute discretion and notified to Employees and shall be no less than the highest of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the GEM on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the GEM for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

At the balance sheet date, the Company had 12,000,000 outstanding share options which entitle the holders to subscribe for shares in the Company at any time during the period from 3 February 2000 to 3 February 2007. The subscription price per share payable upon the exercise of each option is HK\$1.775, subject to adjustment. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,000,000 additional shares of HK\$0.025 each.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on GEM) had an interest in a business which competes or may compete with the business of the Group during the year and up to the date of the report.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 31 December 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Ultra Challenge (note 1)	171,900,000	54.06
HSBC International Trustee Limited (note 1)	171,900,000	54.06
HSBC Holdings plc (note 2)	171,900,000	54.06
HSBC Finance (Netherlands) (note 2)	171,900,000	54.06
HSBC Holdings B. V. (note 2)	171,900,000	54.06
HSBC Investment Bank Holdings B. V. (note 2)	171,900,000	54.06

Notes:

- (1) The shares in Ultra Challenge are held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang, Mr. Yao Xiao Dong, Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei. None of these beneficiaries had an effective interest amounting to 10% or more of the issued share capital of the Company.
- (2) HSBC Holdings plc, HSBC Finance (Netherlands), HSBC Holdings B. V., HSBC Investment Bank Holdings B. V. are holding companies of HSBC International Trustee Limited and they are therefore interested and/or deemed to be interested through HSBC International Trustee Limited.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

CONNECTED TRANSACTIONS

Details of the transactions with Genius Co., Ltd. ("Genius") are included in note 24 to the financial statements. Genius and its subsidiaries are deemed to be connected persons of the Company for the purpose of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules").

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are: (i) to review the annual report and accounts, half-yearly reports and quarterly reports and provide advice and comments thereon to the board of directors and; (ii) to review and supervise the financial reporting process and internal control system of the Group.

The audit committee consisted of three members including Mr. Li Shan Hai, Mr. Wang Fu Sun, both independent non-executive directors, and Professor Li Min Qiang, an executive director.

During the year the audit committee has met 5 times with the management and board of directors: (i) to review the Group's quarterly, half yearly and annual financial results; (ii) to review selected aspects of the Group's internal control procedures; (iii) to discuss with the Company's auditors regarding their audit finding; and (iv) to provide advice and recommendations to the board of directors.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the year ended 31 December 2001 the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

SPONSOR'S INTEREST

As at 31 December 2001, Pacific Top Holding Limited ("PacificTop"), a fellow subsidiary of the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), was interested in 8,100,000 shares of the Company. Save as disclosed herein, none of Oriental Patron, its directors, employees or associates as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules had any interests in the share capital of the Company as at 31 December 2001.

Pursuant to the agreement dated 27 September 1999 entered into between the Company and Oriental Patron, Oriental Patron has received and will receive fees for acting as the Company's retained sponsor for the period from 24 January 2000 to 31 December 2002.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Professor Kou Ji Song

Chairman

Hong Kong

27 March 2002

REPORT OF THE AUDITORS

To the members

China Data Broadcasting Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

27 March 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
TURNOVER	5	6,036	25,259
Cost of sales		<u>(7,133)</u>	<u>(24,409)</u>
Gross profit/(loss)		(1,097)	850
Other revenue	5	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	6	(14,636)	(7,193)
Tax	9	<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	10	<u><u>(11,286)</u></u>	<u><u>(5,994)</u></u>
LOSS PER SHARE	11		
Basic		<u><u>(3.55) cents</u></u>	<u><u>(1.94) cents</u></u>
Diluted		<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Exchange differences on translation of the financial statements of foreign entities	19	(18)	76
Net gains/(losses) not recognised in the profit and loss account		(18)	76
Net loss for the year attributable to shareholders		(11,286)	(5,994)
Total recognised gains and losses		(11,304)	(5,918)

CONSOLIDATED BALANCE SHEET

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	481	789
Intangible asset	13	248	358
		<u>729</u>	<u>1,147</u>
CURRENT ASSETS			
Inventories	15	2,879	6,050
Trade receivables	16	67	2,232
Prepayments, deposits and other receivables		319	1,118
Cash and bank balances		28,459	36,727
		<u>31,724</u>	<u>46,127</u>
CURRENT LIABILITIES			
Trade payables	17	343	2,226
Other payables and accruals		5,033	1,531
Amount due to a director		—	117
Amounts due to related companies	24	232	522
		<u>5,608</u>	<u>4,396</u>
NET CURRENT ASSETS		26,116	41,731
TOTAL ASSETS LESS CURRENT LIABILITIES		26,845	42,878
MINORITY INTERESTS	20(b)	6,242	10,971
		<u>20,603</u>	<u>31,907</u>
CAPITAL AND RESERVES			
Issued capital	18	7,950	7,950
Reserves	19	12,653	23,957
		<u>20,603</u>	<u>31,907</u>

Kou Ji Song
Director

Bu Dong Mei
Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	20(a)	(4,530)	(14,544)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		740	1,239
Dividend paid to a minority shareholder of a subsidiary	20(b)	(1,223)	—
Net cash inflow/(outflow) from returns on investments and servicing of finance		(483)	1,239
INVESTING ACTIVITIES			
Purchases of fixed assets		(131)	(274)
Purchase of an intangible asset		(3,120)	—
Increase in deposit with a maturity of more than three months		(13,649)	—
Dissolution of a subsidiary	20(c)	(4)	—
Net cash outflow from investing activities		(16,904)	(274)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(21,917)	(13,579)
FINANCING ACTIVITIES			
Proceeds from issue of shares		—	44,160
Share issue expenses		—	(7,873)
Capital contributions from minority shareholders	20(b)	—	11,384
Net cash inflow from financing activities		—	47,671
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(21,917)	34,092
Cash and cash equivalents at beginning of year		36,727	2,635
CASH AND CASH EQUIVALENTS AT END OF YEAR		14,810	36,727
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		28,459	36,727
Less: deposit with a maturity of more than three months		(13,649)	—
		14,810	36,727

BALANCE SHEET

31 December 2001

	Notes	2001 HK\$'000	2000 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	<u>19,936</u>	<u>27,037</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		214	142
Cash and bank balances		<u>1,000</u>	<u>5,239</u>
		<u>1,214</u>	<u>5,381</u>
CURRENT LIABILITIES			
Other payables and accruals		460	511
Amount due to a related company	24	<u>87</u>	<u>—</u>
		<u>547</u>	<u>511</u>
NET CURRENT ASSETS		<u>667</u>	<u>4,870</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>20,603</u></u>	<u><u>31,907</u></u>
CAPITAL AND RESERVES			
Issued capital	18	7,950	7,950
Reserves	19	<u>12,653</u>	<u>23,957</u>
		<u><u>20,603</u></u>	<u><u>31,907</u></u>

Kou Ji Song
Director

Bu Dong Mei
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2001

1. CORPORATE INFORMATION

The registered office of China Data Broadcasting Holdings Limited is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was involved in the following principal activities which were carried out in the People's Republic of China (the "PRC").

- manufacture and sale of data broadcasting hardware and software
- provision of data broadcasting and related services

In the opinion of the directors, the ultimate holding company is Ultra Challenge Limited ("Ultra Challenge"), which is incorporated in the British Virgin Islands with limited liability.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 9 (Revised):	"Events after the balance sheet date"
SSAP 14 (Revised):	"Leases"
SSAP 18 (Revised):	"Revenue"
SSAP 26:	"Segment reporting"
SSAP 28:	"Provisions, contingent liabilities, and contingent assets"
SSAP 29:	"Intangible assets"
SSAP 30:	"Business combinations"
SSAP 31:	"Impairment of assets"
SSAP 32:	"Consolidated financial statements and accounting for investments in subsidiaries"
Interpretation 12:	"Business combinations – subsequent adjustment of fair values and goodwill initially reported"
Interpretation 13:	"Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations, are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 22 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposal of during the year are consolidated from or to their effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

The joint venture company is an independent business entity established and operating in the PRC. The joint venture agreement and the related constitution stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared between the joint venture partners in proportion to their respective interests in the joint venture.

A joint venture company is accounted for as a subsidiary if the Group has control over the joint venture company.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account for the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

Intangible asset

Intangible asset represents the cost of acquiring the Full Channel Data Broadcasting Technology ("Technology") and the Conditional Access system. It is stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis over the estimated economic life of the intangible asset, subject to a maximum period of five years commencing on the date when the intangible asset was brought into economic use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The principal annual rate used for this purpose is as follows:

Furniture, fixtures and equipment	16%
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The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Capital reserve

Capital reserve represents the excess of the Group's interest in the fair values ascribed to the identifiable net assets of the data broadcasting business and the Technology over the consideration paid by the Group pursuant to a Group reorganisation ("Reorganisation") on 11 January 2000 in preparation for the listing of the Company's shares on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM").

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the expected economic useful lives of the products, subject to a maximum period of five years commencing in the year when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) from the rendering of data broadcasting and related services, when such services are rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pension costs

The Group has joined a mandatory central pension scheme organised by the PRC Government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer's contributions are vested fully once they are made.

Since 1 December 2000, a mandatory provident fund scheme has been set up for all eligible employees of the Group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

4. SEGMENT INFORMATION

SSAP26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by two way of segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) sales of the data broadcasting hardware and software; and
- (b) provision of data broadcasting and related services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

No intersegment sales and transfers were transacted during the year. (2000: Nil)

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following table presents revenue, loss and certain assets, liability and expenditure information for the Group's business segments.

	Sales of data broadcasting hardware and software		Provision of data broadcasting and related services		Total	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 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>	<u>(5,684)</u>	<u>(1,105)</u>
Interest income and unallocated gains					798	1,333
Unallocated corporate expenses					<u>(9,750)</u>	<u>(7,421)</u>
Operating loss before tax					<u>(14,636)</u>	<u>(7,193)</u>
Tax					—	—
Loss before minority interests					<u>(14,636)</u>	<u>(7,193)</u>
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>
Segment assets	<u>3,018</u>	<u>8,927</u>	<u>21</u>	<u>19</u>	<u>3,039</u>	<u>8,946</u>
Unallocated assets	—	—	—	—	<u>29,414</u>	<u>38,328</u>
Total assets	<u>3,018</u>	<u>8,927</u>	<u>21</u>	<u>19</u>	<u>32,453</u>	<u>47,274</u>
Segment liabilities	<u>241</u>	<u>2,220</u>	<u>147</u>	<u>271</u>	<u>388</u>	<u>2,491</u>
Unallocated liabilities	—	—	—	—	<u>5,220</u>	<u>1,905</u>
Total liabilities	<u>241</u>	<u>2,220</u>	<u>147</u>	<u>271</u>	<u>5,608</u>	<u>4,396</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 subscription payments	—	—	—	—	<u>3,769</u>	—

NOTES TO FINANCIAL STATEMENTS

31 December 2001

4. SEGMENT INFORMATION (continued)

(b) By geographical segments

The Group's turnover were all derived from the PRC. All segment assets are located in the PRC. Accordingly, no other analysis has been disclosed.

5. TURNOVER AND REVENUE

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.

An analysis of turnover and other revenue is as follows:

	2001 HK\$'000	2000 HK\$'000
<u>Turnover</u>		
Sales of data broadcasting hardware and software	3,684	23,380
Income from the provision of data broadcasting and related services	2,352	1,879
	<u>6,036</u>	<u>25,259</u>
<u>Other revenue</u>		
Interest income	740	1,239
Others	58	94
	<u>798</u>	<u>1,333</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

6. OPERATING LOSS BEFORE TAX

The Group's operating loss before tax is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Depreciation	196	175
Intangible assets:		
Amortisation for the year*	110	102
Impairment of an intangible asset	3,120	—
Research and development costs**	198	728
Minimum lease payments under operating lease in respect of land and buildings	222	413
Auditors' remuneration	395	395
Staff costs (excluding directors' remuneration (note 7)):		
Salaries and related staff costs	1,197	1,490
Pension contributions	137	227
	<u>1,334</u>	<u>1,717</u>
Loss on write off of fixed assets	242	—
Provision for doubtful debts	1,244	971
Provision for slow-moving inventories	2,411	4,358
Provision for prepayments, deposits and other receivables	223	254
Minimum subscription payments	3,769	—
Exchange losses, net	—	14
Gain on dissolution of a subsidiary	(4)	—
Interest income	<u>(740)</u>	<u>(1,239)</u>

* The amortisation of an intangible asset for the year is included in "Cost of sales" in the profit and loss account.

** Research and development costs for the year included salaries and pension contributions of HK\$163,000 which are also included in staff costs as disclosed above.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Rules Governing the Listing of Securities on GEM and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees	40	40
Other emoluments:		
Salaries and allowances	748	639
Pension contributions	20	27
	768	666
	808	706

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2001 analysed on an individual basis was as follows: HK\$120,000 (2000: HK\$117,000), HK\$51,000 (2000: HK\$233,000), HK\$120,000 (2000: HK\$117,000), HK\$220,000 (2000: HK\$133,000), HK\$120,000 (2000: HK\$66,000) and HK\$137,000 (2000: Nil).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2001 analysed on an individual basis was as follows: HK\$20,000 (2000: HK\$20,000) and HK\$20,000 (2000: HK\$20,000).

No emoluments were paid by the Group to those executive directors as a bonus, as an inducement to join the Group, or as compensation for loss of office.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2000: four) directors, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration paid to the remaining two (2000: one) highest paid, non-director employee during the year are set out as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Salaries and allowances	688	520
Pension contributions	22	1
	<u>710</u>	<u>521</u>

The number of highest paid, non-director employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2001	2000
Nil — HK\$1,000,000	<u>2</u>	<u>1</u>

9. 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 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 2000 when it first became profitable.

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

10. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statement of the Company is HK\$11,304,000 (2000: HK\$5,465,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2001

11. 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 have not been calculated as the impact of the outstanding share options was anti-dilutive.

12. FIXED ASSETS

	Group
	Furniture, fixtures and equipment HK\$'000
Cost:	
At beginning of year	1,043
Additions	131
Written off	(402)
Exchange realignment	(1)
At 31 December 2001	<u>771</u>
Accumulated depreciation:	
At beginning of year	254
Provided during the year	196
Written off	(160)
Exchange realignment	—
At 31 December 2001	<u>290</u>
Net book value:	
At 31 December 2001	<u><u>481</u></u>
At 31 December 2000	<u><u>789</u></u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

13. INTANGIBLE ASSET

	Group HK\$'000
Cost:	
At beginning of year	511
Additions	3,120
	<hr/>
At 31 December 2001	3,631
	<hr/>
Accumulated amortisation and impairment:	
At beginning of year	153
Provided during the year	110
Impairment during the year recognised in the profit and loss account	3,120
	<hr/>
At 31 December 2001	3,383
	<hr/>
Net book value:	
At 31 December 2001	248
	<hr/> <hr/>
At 31 December 2000	358
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	1,082	1,082
Due from subsidiaries	28,692	27,993
	<u>29,774</u>	<u>29,075</u>
Provision for impairment	(1,082)	(1,082)
Provision for amounts due from subsidiaries	(8,756)	(956)
	<u>19,936</u>	<u>27,037</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			Verified Solutions Group Limited ("Verified Solutions")	British Virgin Islands	
Tianjin Tiancai Network Software Co., Ltd.* ("Tiancai Network")	PRC	US\$5,000,000	—	70	Provision of data broadcasting services and sale of related hardware and software

* The company's name in English is a direct translation of its name in Chinese.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

15. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	1,529	2,597
Work in progress	931	3,215
Finished goods	419	238
	<u>2,879</u>	<u>6,050</u>

16. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 1 month, extending up to 3 months. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	176	2,480
4 to 6 months	1	128
7 to 12 months	126	291
Over 1 year	1,979	304
	<u>2,282</u>	<u>3,203</u>
Less: Provision for doubtful debts	<u>(2,215)</u>	<u>(971)</u>
	<u>67</u>	<u>2,232</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

17. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within 3 months	131	1,768
4 to 6 months	48	149
7 to 12 months	—	94
Over 1 year	164	215
	<u>343</u>	<u>2,226</u>

18. SHARE CAPITAL

	Group and Company	
	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
1,200,000,000 ordinary shares of HK\$0.025 each	<u>30,000</u>	<u>30,000</u>
<i>Issued and fully paid:</i>		
318,000,000 ordinary shares of HK\$0.025 each	<u>7,950</u>	<u>7,950</u>

Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on page 24.

At the beginning of the year, there were 12,000,000 options outstanding under the Scheme, which entitled the holders to subscribe for shares of the Company at anytime during periods ranging from 3 February 2000 to 3 February 2007. The subscription price payable upon the exercise of these options was HK\$1.775, subject to adjustment.

At the balance sheet date, as no share options were exercised during the year, the Company still had 12,000,000 outstanding share options. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,000,000 additional shares of HK\$0.025 each.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

19. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Other reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 January 2000	—	885	—	307	—	146	1,338
Shares issued on the placing	35,400	—	—	—	—	—	35,400
Shares 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 profits 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>

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Arising on Reorganisation	—	885	—	885
Shares issued on the placing	35,400	—	—	35,400
Shares issued on over-allotment	5,310	—	—	5,310
Share issue expenses	(7,873)	—	—	(7,873)
Capitalisation for unpaid shares	(4,300)	—	—	(4,300)
Net loss for the year	—	—	(5,465)	(5,465)
At 31 December 2000 and 1 January 2001	28,537	885	(5,465)	23,957
Net loss for the year	—	—	(11,304)	(11,304)
At 31 December 2001	<u>28,537</u>	<u>885</u>	<u>(16,769)</u>	<u>12,653</u>

The contributed surplus of the Group represents the difference between the nominal value of the shares and the share premium account of Verified Solutions acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss before tax to net cash outflow from operating activities:

	2001 HK\$'000	2000 HK\$'000
Operating loss before tax	(14,636)	(7,193)
Interest income	(740)	(1,239)
Gain on dissolution of a subsidiary	(4)	—
Depreciation	196	175
Loss on written off of fixed assets	242	—
Amortisation of an intangible asset	110	102
Impairment of an intangible asset	3,120	—
Provision for slow-moving inventories	2,411	4,358
Provision for doubtful debts	1,244	971
Provision for prepayments, deposits and other receivables	223	254
Decrease/(increase) in inventories	760	(9,323)
Decrease/(increase) in trade receivables	921	(2,627)
Decrease/(increase) in prepayments, deposits and other receivables	426	(1,119)
Increase/(decrease) in trade payables	(1,883)	1,190
Increase in other payables and accruals	3,504	1,190
Decrease in an amount due to a director	(117)	(259)
Decrease in amounts due to related companies	(290)	(1,094)
Effect of changes in foreign exchange rates	(17)	70
Net cash outflow from operating activities	<u>(4,530)</u>	<u>(14,544)</u>

(b) Analysis of changes in financing during the year:

	Share capital and share premium HK\$'000	Minority interests HK\$'000
Arising on Reorganisation and acquisition of a subsidiary	200	786
Share issued on the placing and over-allotment	36,287	—
Capital contributions from minority shareholders	—	11,384
Share of loss after tax of subsidiaries	—	(1,199)
Balances at 31 December 2000 and 1 January 2001	36,487	10,971
Share of loss after tax of subsidiaries	—	(3,350)
Dividend paid to a minority shareholder of a subsidiary	—	(1,223)
Dissolution of a subsidiary during the year shared by a minority shareholder	—	(156)
Balance at 31 December 2001	<u>36,487</u>	<u>6,242</u>

NOTES TO FINANCIAL STATEMENTS

31 December 2001

20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Dissolution of a subsidiary

	2001 HK\$'000	2000 HK\$'000
Net assets as at the date of dissolution:		
Cash and bank balances	1,408	—
Prepayments, deposits and other receivables	150	—
Other payables	(2)	—
Minority interests	(156)	—
	<u>1,400</u>	<u>—</u>
Gain on dissolution of a subsidiary	4	—
	<u>1,404</u>	<u>—</u>
Satisfied by:		
Cash	<u>1,404</u>	<u>—</u>

Analysis of the net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	1,404	—
Cash and bank balances as at the date of dissolution	<u>(1,408)</u>	<u>—</u>
Net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary	<u>(4)</u>	<u>—</u>

In respect of cash flows for 2001, the subsidiary dissolved during the year had no significant impact in respect of the Group's net operating cash flows, investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiary dissolved during the year had no significant impact on the consolidated turnover or the consolidated loss after tax for the year ended 31 December 2001.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

21. CONTINGENT LIABILITIES

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 financial statements.

22. OPERATING LEASE ARRANGEMENTS

The Group entered into non-cancellable operating lease arrangements in respect of its office premises, and for data broadcasting information provided by a service provider. The terms of the leases range from 1 to 3 years.

At 31 December 2001, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000 (Restated)	2001 HK\$'000	2000 HK\$'000 (Restated)
Within one year	232	319	138	132
In the second to fifth years, inclusive	25	143	6	143
	<u>257</u>	<u>462</u>	<u>144</u>	<u>275</u>

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee above, have been restated to accord with the current year's presentation.

23. COMMITMENTS

At the balance sheet date, neither the Group, nor the Company had any significant commitments.

NOTES TO FINANCIAL STATEMENTS

31 December 2001

24. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	2001 HK\$'000	Group 2000 HK\$'000
Rentals paid to Genius Co., Ltd. ("Genius"), a shareholder of Tiancai Network	160	176
Subcontracting charges paid to a subsidiary of Genius	—	182
Printing charges paid to Genius	21	44
	<u>181</u>	<u>392</u>

Tiancai Network was granted the right to use the "Tiancai" trademark in the normal course of business by Genius for no consideration.

The balances with Genius as at 31 December 2001 are unsecured, interest-free and have no fixed terms of repayment.

Genius is a joint stock limited company which holds a 30% interest in Tiancai Network.

In the opinion of the directors, the rentals and printing charges incurred were at rates approximating open market rates.

The balance with other related company is unsecured, interest-free and has no fixed terms of repayment.

25. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2002.