



**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)

annual report 2002

* For identification only

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| | |
|--|---|
| 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. WANG Guang Xin |
| Qualified accountant | Mr. SHUM Shing Kei AHKSA |
| Company secretary | Mr. SHUM Shing Kei AHKSA |
| Authorised representatives | Prof. KOU Ji Song Mr. SHUM Shing Kei AHKSA |
| 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 |
| Stock Code | 8016 |



>> CORPORATE INFORMATION

Sponsor

Oriental Patron Asia Limited
GEM-Registered Sponsor
42nd Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

Legal Advisers

Richards Butler
International Law Firm
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
Room 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal banker

International Bank of Asia Limited
Shop 2, G/F, Wu Chung House
213 Queen's Road East
Hong Kong

BUSINESS REVIEW

During the year, apart from the data broadcasting business in the PRC, the Group capitalized its expertise on the digital information technology field to act as a technical consultant and sourcing agent for parts and components of digital versatile disc players for a connected party (the "Services"), which was approved by the independent shareholders at the special general meeting held on 31 May 2002. Details of the Services are set out in the Company's circular dated 15 May 2002.

For the year ended 31 December 2002, the Group's consolidated turnover was approximately HK\$111.6 million, representing a substantial increase by 17.5 times compared with last year. Loss attributable to shareholders amounted to HK\$4.0 million while the last year's loss was HK\$11.3 million. The improved Group's performance was mainly contributed by the broadened income base and considerable profits achieved in the provision of the Services commencing June 2002 - the related turnover and gross profit amounted to HK\$108.7 million and HK\$1.9 million, respectively.

The prolonged depression of the PRC stock market and the persistent intense competitions in the year 2002 created an uncertain market of data broadcasting business in the PRC. In addition, as the National Standard for the data broadcasting industry has not formally been released, the Group adopted a prudent attitude towards the market demand and had scaled down certain of its business activities such as launching and provision of certain new products and systems, signing cooperative agreements with TV network operators and content providers, etc. 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. As such, the Group had an unsatisfactory results attained in this business during the year. The turnover derived from the sales of data broadcasting hardware and software and the provision of data broadcasting and related services decreased by 52.2% to HK\$2.9 million for the year, compared with 2001, leading to the operating loss incurred for the year in this business segment.

As regards the research and development activities, the Group has secured the know-how of the Conditional Access system which greatly strengthens the Group's technological capability in the development of dynamic encryption system. In view of the technological advancement of the system in application for individual and commercial usages, the Group believes that the system will offer business opportunities to the Group in the near future. Besides, the Group has continued in its customer-oriented services and is actively developing a nationwide sales distribution network for its products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial and liquidity positions are healthy and stable. As at 31 December 2002, the Group is debt-free and its cash and bank balances amount to HK\$26.4 million. Net current assets of the Group was approximately HK\$21.8 million. The management is confident that the Group's financial resource is sufficient to finance its day-to-day operation. At present, the Group does not have a funding need and does not have any charges on its assets.

The Group's monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, together with the minimal fluctuation in the exchange rate between Hong Kong dollar and Renminbi, the Group believes its exposure to exchange risk is minimal.



>> CHAIRMAN'S STATEMENT

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2002, the total number of staff of the Group in the Mainland and Hong Kong was 27. The total staff costs, including directors' emoluments amounted to HK\$2.0 million for the year under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the Mainland.

The Group established a Share Option Scheme to reward its employees for their individual performance. For the year ended 31 December 2002, there was a total of 12,000,000 outstanding share options to its employees. During the year under review, no share option had been granted nor exercised.

CONTINGENT LIABILITIES

The Company's subsidiary, Tianjin AVD, was a defendant in a lawsuit brought by a supplier in 2001 claiming approximately HK\$99,000 together with an interest of approximately HK\$3,800. 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 Tianjin AVD, and the aforesaid supplier filed an appeal against the judgement on 22 December 2001. On 25 February 2002, the Court of Appeal in Tianjin overturned the judgement made by the District Court. The case was then re-heard by the District Court on 26 November 2002 under the instructions of the Court of Appeal. On 14 March 2003, the District Court laid down a judgement in favour of Tianjin AVD under which the Group is not liable to any claim and, accordingly, no provision has been accounted for in the Group's financial statements in respect of the matter. The supplier has 15 days from the date of receiving the judgement within which to make a further appeal, should it so decide.

OTHERS

On 23 December 2002 and subsequent to the balance sheet date, on 17 February 2003, the Board announced that there has been discussion between Apex Digital Inc. ("Apex Digital"), a substantial shareholder of the Company which holds 80,000,000 shares of the Company (the "Shares"), representing 25.16% interests in the Company, and Ultra Challenge Limited ("Ultra Challenge"), the controlling shareholder of the Company which holds 171,900,000 Shares, representing 54.06% interests in the Company, in respect of the intended transfer of the Shares held by Ultra Challenge to Apex Digital (the "Proposal"). As at the date of this announcement, the discussion between Apex Digital and Ultra Challenge is still in progress and the terms of the Proposal are being finalized. If the Proposal materialises, it will result in a change of control of the Company and will trigger an obligation on the part of Apex Digital to make a general offer in compliance with Rule 26 of the Code on Takeovers and Mergers (the "Takeovers Code") to acquire all the issued Shares (other than those already owned by Apex Digital or parties acting in concert with it).

As at the date of this announcement, no legally binding contract and/or agreement in relation to the Proposal has been entered into. Accordingly, the Proposal may or may not materialise and such discussion may or may not result in a change of control.



OUTLOOK

In view of the broadened income base and considerable profits achieved by the provision for the Services during the year, the management is confident that it will build up a steady and considerable income stream to the Group. However, the initial term of the Services expired on 31 December 2002 and the management is considering to extend the Services with a connected party. Up to the date of this announcement, no agreement is entered into between the Company and the connected party. In addition, the management is actively exploring another business opportunities for capitalization of our expertise on the digital information technology field to further broaden the income base for the interest of the Group.

As regards the data broadcasting business in the PRC, the management believes that the research and development is important in the long-term development of the Group. Accordingly, the Group is cautious about the fierce competitions in the uncertain market and the development of the National Standard for the data broadcasting industry and will continue to invest resources to develop products. The Group will also capitalize on its brand name advantage, stressing on the establishment of its sale and after-sale network in order to further enlarge the Group's market share and to further consolidate its leading position in the data broadcasting industry.

Professor Kou Ji Song

Chairman

24 March 2003



>> COMPARISON OF BUSINESS PROGRESS

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

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

Sales of PC plug-in boards

- Launch new models of PC plug-in board

As a result of depression in the PRC stock market and keen market competition, resulting in the drop in demand for PC plug-in boards, the Group will slow down the pace to launch new PC plug-in board.

Sales of TV set top box

- Launch new models of financial TV set top box
- Launch new models of multimedia TV set top box

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.

Number of strategically allied TV network operators

- Total (with or without co-operative agreements) 493, of which 349 are under co-operative agreements

As at 31 December 2002, total number of strategically allied TV network operators was 50, of which 30 are under co-operative agreements. Reasons for failure to achieve target are as follows:

1. Under the co-operative 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 co-operative 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 reorganizing, 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.



COMPARISON OF BUSINESS PROGRESS < <

Strategically allied content provider

- Continue to establish strategic alliance with content providers
- As at 31 December 2002, the Group established 2 content providers. Due to the less than expected co-operative TV network operators and subscribers that the Group has attained, the need to establish more content providers diminished.

Marketing

Sales and after sales network

- engage 150 new authorized distributors
- Engaged 42 authorized 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 newspaper, 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.

Market research

- Conduct research on market response to TV set top boxes to evaluate the Group's sales and marketing program
- No research was conducted. See reasons under "Sales of TV set top box".



>> COMPARISON OF BUSINESS PROGRESS

Operations and production

Transmission modules

- Provide 150 new FC data broadcasting transmission modules to TV network operators
- Provided 2 new FC data broadcasting transmission modules and modified transmission modules for 30 TV network operators. Please refer to the explanation on “Number of strategically allied TV network operators”.

Contents for data broadcasting

- Produce distance education contents for secondary education
- Distance education contents were not produced. Instead, the Group obtained the contents through the co-operation with strategically allied content providers for cost reasons.
- Produce new contents by sourcing the same from electronic newspaper and magazine publishers and financial information providers
- New contents were obtained from existing information providers to enrich the Group's content base.

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 HK\$86,000.
- Acquire facilities for product testing
- Product testing is performed with the existing facilities due to above reasons.

Transmission modules

- Continue to develop new models of transmission modules
- As the National Standard for the data broadcasting is still not available, the Group postponed the development of these transmission modules.

Reception modules

- Continue to develop new models of reception modules
- The work was closely followed on the development of the National Standard.

Software

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

COMPARISON OF BUSINESS PROGRESS < <

Sourcing of contents

- Continue to acquire education contents for primary, secondary and further education and professional examination
The contents were obtained through co-operation of the strategically allied content providers.
- Continue to 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.

Human resources

- Total headcount amount to over 200, of which not less than 50% are research and development personnel as at the end of year 2002
As at 31 December 2002, the total number of staff of the Group was 27. Actual headcount is less than expected are due to:
 1. The number decreased as co-operation 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 this decrease.
 2. Co-operation 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 31 December 2002, the Group had utilized about HK\$12.2 million of the Placing proceeds. This represents approximately 45% of the HK\$27.1 million as stated in the Prospectus.

The under-utilisation is mainly because:

1. Approximately 63% of the planned use was expected to be utilized 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 utilize free resources of its allied TV network operators and content providers such as newspapers for the Group's promotion and advertising activities.

EXECUTIVE DIRECTORS

Professor Kou Ji Song, aged 55, 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 Tianjin Tianda Tiancai Co., Ltd. ("Tianda Tiancai") (formerly known as Genius Co., Ltd.). 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 48, 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 37, 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 45, is responsible for the production and general administration of the Group and is also the compliance officer of the Company for the purpose of the GEM Listing Rules with effect from 26 April 2002. Prior to joining the Group, he had been the department manager of Tianda Tiancai since 1993. He is the brother-in-Law of Professor Kou Jisong.

Mr. Yao Xiao Dong, aged 37, is one of the founding staff members of the Group and is responsible for the Group's market development. 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. He resigned as a director and the compliance officer of the Company for the purpose of GEM Listing Rules on 26 April 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Shan Hai, aged 63, is an independent non-executive director appointed by the Company in January 2001. 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 70, is an independent non-executive director appointed by the Company in January 2001. 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.

SENIOR MANAGEMENT

Mr. Shum Shing Kei, aged 31, is the group financial controller and company secretary of the Company. He obtained a Master's degree in financial management from the University of London, the United Kingdom. He is also an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in March 2002, he had 8 years' experience in auditing and accounting and had worked for an international accounting firm.

Mr. Lo Shiu Hung, aged 62, is the general manager of Tianjin AVD Electron Co., Ltd. Prior to joining the Group in October 2000, he has got extensive experiences in the area of digital information technology.

Mr. Ni Yue, aged 49, has years of experience engaged in financial management, and has worked for the Sino-American Joint Venture Otis Elevator Company. He joined Tianjin AVD Electron Co., Ltd in 2002 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 Thursday, 24 April 2003 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, 2002.
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 Ji Song

Chairman

Hong Kong, 28 March 2003

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 Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, 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 2002.

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 changes in the nature of the Group's principal activities during the year, except that the Group started to engage in the business of trading of parts and components of digital versatile disc ("DVD") players. During the year, all the parts and components of DVD players were sold to a connected person as detailed under the heading "Connected transactions" below.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 56.

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

| | 2002 HK\$'000 | Year ended 31 December | | | |
|--|------------------|------------------------|------------------|----------------------------|----------------------------|
| | | 2001 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 (Note) | 1998 HK\$'000 (Note) |
| TURNOVER | 111,566 | 6,036 | 25,259 | 12,559 | 7,294 |
| Cost of sales | (111,018) | (7,133) | (24,409) | (10,023) | (5,770) |
| Gross profit/(loss) | 548 | (1,097) | 850 | 2,536 | 1,524 |
| Other revenue | 278 | 798 | 1,333 | 8 | — |
| Selling and distribution costs | (366) | (769) | (756) | (1,014) | (315) |
| Administrative expenses | (5,245) | (4,772) | (6,667) | (1,130) | (480) |
| Other operating income/(expenses) | 136 | (8,796) | (1,953) | (250) | — |
| OPERATING PROFIT/(LOSS) BEFORE TAX | (4,649) | (14,636) | (7,193) | 150 | 729 |
| Tax | — | — | — | — | — |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | (4,649) | (14,636) | (7,193) | 150 | 729 |
| Minority interests | 643 | 3,350 | 1,199 | (134) | (219) |
| NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS | (4,006) | (11,286) | (5,994) | 16 | 510 |

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ASSETS, LIABILITIES AND MINORITY INTERESTS

| | 2002 HK\$'000 | 31 December | |
|--------------------|------------------|------------------|------------------|
| | | 2001 HK\$'000 | 2000 HK\$'000 |
| TOTAL ASSETS | 27,766 | 32,453 | 47,274 |
| TOTAL LIABILITIES | (5,570) | (5,608) | (4,396) |
| MINORITY INTERESTS | (5,599) | (6,242) | (10,971) |
| | 16,597 | 20,603 | 31,907 |

Note: The results of the Group for each of the two years ended 31 December 1998 and 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 movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 20 and 21 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 22 to the financial statements and in the consolidated summary statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2002, the Company did not have any reserves available for distribution, other than the Company's share premium account, in the amount of approximately HK\$28,537,000, which 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 (the "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 98% of the total sales for the year and sales to the largest customer included therein amounted to approximately 97%.

Purchases from the Group's five largest suppliers accounted for approximately 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 88%.

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

Mr. Yao Xiao Dong (resigned on 26 April 2002)

Independent non-executive directors:

Mr. Li Shan Hai

Mr. Wang Fu Sun

In accordance with clause 87 of the Company's bye-laws, Professor Li Min Qiang will retire and, being eligible, will offer himself 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 12 to 13 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 21 to the financial statements, 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. No options have been granted to the directors up to the date of this report.



>> REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, 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 Kou Ji Song (note 1) | — | — | — | 171,900,000 |
| Professor Li Min Qiang (note 2) | — | — | — | 5,157,000 |
| Mr. Wang Guang Xin (note 2) | — | — | — | 17,190,000 |
| Ms. Bu Dong Mei (note 2) | — | — | — | 17,190,000 |

Notes:

- (1) As at 1 January 2002, 171,900,000 of the Company's shares were held by Ultra Challenge Limited ("Ultra Challenge") which are in turn held by HSBC International Trustee Limited ("HSBC") on terms of a fixed trust. On 24 October 2002, HSBC ceased to be the trustee and on the same date, Professor Kou Ji Song was appointed as one of the successor trustees. By virtue of this, Professor Kou Ji Song is taken to be interested in 171,900,000 shares of the Company.
- (2) As at 1 January 2002, the beneficiaries of the trust held by HSBC included Mr. Wang Guang Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong. On 9 January 2002, the entire beneficial interest under the trust held by Mr. Ji Songqiao and Ms. Cai Zhipei were disposed of to Ms. Bu Dong Mei. On 26 April 2002, Mr. Yao Xiao Dong resigned as a director of the Company. On 13 May 2002, 70% of the entire beneficial interest under the trust held by Professor Li Min Qiang was disposed of to Mr. Wang Chaowen, Mr. Cheng Ze and Ms. Lu Yan Hong. Since then, Professor Li Min Qiang, Mr. Wang Guang Xin and Ms. Bu Dong Mei are deemed to be interested in 5,157,000, 17,190,000 and 17,190,000 shares, respectively, by virtue of their respective 3%, 10% and 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

Due to the adoption during the year of Statement of Standard Accounting Practice No. 34 "Employee benefits", the detailed disclosures relating to the Company's share option scheme have been moved to note 21 to the financial statements.



COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the 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.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, 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 |
| Professor Kou Ji Song and Mr. Choi Kwok Yat (note 1) | 171,900,000 | 54.06 |
| Apex Digital Inc. (note 2) | 80,000,000 | 25.16 |
| Mr. David Ji (note 2) | 66,000,000 | 20.75 |

Notes: (1) As at 1 January 2002, the shares in Ultra Challenge were held by HSBC on terms of a fixed trust. On 24 October 2002, Professor Kou Ji Song and Mr. Choi Kwok Yat were appointed as the successor trustees after the cessation of HSBC to be the trustee on the same date. On 9 January 2002, the entire beneficial interest under the trust held by Mr. Ji Songqiao and Ms. Cai Zhipei were disposed of to Ms. Bu Dong Mei. On 13 May 2002, 70% of the entire beneficial interest under the trust held by Professor Li Min Qiang was disposed of to Mr. Wang Chaowen, Mr. Cheng Ze and Ms. Lu Yan Hong. On the same date, 90% of the entire beneficial interest under the trust held by Mr. Yao Xiao Dong was disposed of to Mr. Xiong Kai, Mr. Ye Ting, Mr. Han Tao and Mr. Ni Yue. Since then, the beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang, Mr. Yao Xiao Dong, Mr. Tang Bin, Mr. Wang Guang Xin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Bu Dong Mei, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Xiong Kai, Mr. Ye Ting, Mr. Han Tao, Mr. Ni Yue, Mr. Wang Chaowen, Mr. Cheng Ze and Ms. Lu Yan Hong. None of these beneficiaries had an effective interest amounting to 10% or more of the issued share capital of the Company.

(2) Apex Digital Inc. is owned as to 82.5% by Mr. David Ji. The interest disclosed under Mr. David Ji represents his deemed interests in the shares of the Company by virtue of his interest in Apex Digital Inc.

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

Pursuant to an agreement (the "Agreement") dated 25 April 2002, the Group agreed to act as a technical consultant and sourcing agent for parts and components of DVD players for Tianjin Tianda Tiancai Co., Ltd. ("Tianda Tiancai") (formerly known as Genius Co., Ltd.) for the period from 25 April 2002 to 31 December 2002. Tianda Tiancai is deemed to be a connected person of the Company for the purpose of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"). During the year, no technical consultancy services were provided by the Group to Tianda Tiancai. As at the date of this report, the Agreement has not been renewed. Further details of the transactions are included in note 28 to the financial statements. The directors are of the opinion that the above connected transactions were entered into in the ordinary and usual course of business of the Group.

>> REPORT OF THE DIRECTORS

The independent non-executive directors have reviewed the connected transactions set out above and in their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of its business;
- (ii) either (a) on normal commercial terms or (b) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (iii) either in accordance with the terms of the agreement and/or order contracts or other supplemental agreements governing these transactions; and
- (iv) the aggregate dollar amount of these transactions by the Group during the year was not exceeded the maximum amount of HK\$520 million.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 27 to the financial statements.

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. Four meetings were held by the audit committee during the year.

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.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied throughout the year with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

SPONSOR'S INTEREST

As at 31 December 2002, Pacific Top Holding Limited ("Pacific Top"), 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 interest in the share capital of the Company as at 31 December 2002.

Pursuant to the agreement dated 27 September 1999 entered into between the Company and Oriental Patron, Oriental Patron received 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
24 March 2003

>> 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 27 to 56 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 the 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 2002 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

24 March 2003



CONSOLIDATED PROFIT AND LOSS ACCOUNT <<

Year ended 31 December 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|---|-------|--------------------------------|------------------|
| TURNOVER | 5 | 111,566 | 6,036 |
| Cost of sales | | (111,018) | (7,133) |
| Gross profit/(loss) | | 548 | (1,097) |
| Other revenue | 5 | 278 | 798 |
| Selling and distribution costs | | (366) | (769) |
| Administrative expenses | | (5,245) | (4,772) |
| Other operating income/(expenses) | | 136 | (8,796) |
| OPERATING LOSS BEFORE TAX | 6 | (4,649) | (14,636) |
| Tax | 9 | — | — |
| LOSS BEFORE MINORITY INTERESTS | | (4,649) | (14,636) |
| Minority interests | | 643 | 3,350 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 10 | (4,006) | (11,286) |
| LOSS PER SHARE | 11 | | |
| Basic | | (1.26) cents | (3.55) cents |
| Diluted | | N/A | N/A |



>> CONSOLIDATED BALANCE SHEET

31 December 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 12 | 294 | 481 |
| Intangible assets | 13 | 138 | 248 |
| | | <u>432</u> | <u>729</u> |
| CURRENT ASSETS | | | |
| Inventories | 15 | 320 | 2,879 |
| Trade receivables | 16 | 397 | 67 |
| Prepayments, deposits and other receivables | | 251 | 319 |
| Cash and cash equivalents | 17 | 26,366 | 28,459 |
| | | <u>27,334</u> | <u>31,724</u> |
| CURRENT LIABILITIES | | | |
| Trade payables | 18 | 182 | 343 |
| Other payables and accruals | | 5,241 | 5,033 |
| Amounts due to related companies | 19 | 147 | 232 |
| | | <u>5,570</u> | <u>5,608</u> |
| NET CURRENT ASSETS | | 21,764 | 26,116 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 22,196 | 26,845 |
| MINORITY INTERESTS | | 5,599 | 6,242 |
| | | <u>16,597</u> | <u>20,603</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 20 | 7,950 | 7,950 |
| Reserves | 22 | 8,647 | 12,653 |
| | | <u>16,597</u> | <u>20,603</u> |



Kou Ji Song

Director

Bu Dong Mei

Director

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY < <

Year ended 31 December 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|---|-------|--------------------------------|------------------|
| Total equity at 1 January | | 20,603 | 31,907 |
| Exchange differences on translation of the financial statements of foreign entity | 22 | <u>—</u> | <u>(18)</u> |
| Net loss not recognised in the profit and loss account | | — | (18) |
| Net loss for the year attributable to shareholders | 22 | (4,006) | <u>(11,286)</u> |
| Total equity at 31 December | | <u>16,597</u> | <u>20,603</u> |

>> CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2002

| | Note | 2002 HK\$'000 | 2001 HK\$'000 |
|---|------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss before tax | | (4,649) | (14,636) |
| Adjustments for: | | | |
| Depreciation | | 147 | 196 |
| Interest income | | (245) | (740) |
| Gain on dissolution of a subsidiary | | — | (4) |
| Loss on disposal of fixed assets | | 1 | — |
| Loss on written off of fixed assets | | 2 | 242 |
| Impairment of fixed assets | | 53 | — |
| Amortisation of an intangible asset | | 110 | 110 |
| Impairment of an intangible asset | | — | 3,120 |
| Provision for slow-moving inventories | | 1,474 | 2,411 |
| Provision for doubtful debts | | — | 1,244 |
| Provision for prepayments, deposits and other receivables | | 15 | 223 |
| Write back of provision for doubtful debts | | (290) | — |
| Operating loss before working capital changes | | (3,382) | (7,834) |
| Decrease in inventories | | 1,085 | 760 |
| Decrease/(increase) in trade receivables | | (40) | 921 |
| Decrease in prepayments, deposits and other receivables | | 53 | 426 |
| Decrease in trade payables | | (161) | (1,883) |
| Increase in other payables and accruals | | 208 | 3,504 |
| Decrease in an amount due to a director | | — | (117) |
| Decrease in amounts due to related companies | | (85) | (290) |
| Effect of changes in foreign exchange rates | | — | (17) |
| Cash used in operations | | (2,322) | (4,530) |
| Interest received | | 245 | 740 |
| Net cash outflow from operating activities | | (2,077) | (3,790) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of fixed assets | | (16) | (131) |
| Purchase of an intangible asset | | — | (3,120) |
| Decrease/(increase) in time deposit with original maturity of more than three months | | 13,649 | (13,649) |
| Dissolution of a subsidiary | 23 | — | (4) |
| Net cash inflow/(outflow) from investing activities | | 13,633 | (16,904) |



CONSOLIDATED CASH FLOW STATEMENT < <

Year ended 31 December 2002

| | 2002 | 2001 |
|--|----------------------|---------------|
| | HK\$'000 | HK\$'000 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividend paid to a minority shareholder of a subsidiary | — | (1,223) |
| Net cash outflow from financing activities | — | (1,223) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 11,556 | (21,917) |
| Cash and cash equivalents at beginning of year | 14,810 | 36,727 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>26,366</u> | <u>14,810</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 26,097 | 13,908 |
| Time deposit with original maturity of less than three months when acquired | 269 | 902 |
| | <u>26,366</u> | <u>14,810</u> |



>> BALANCE SHEET

31 December 2002

| | Notes | 2002 HK\$'000 | 2001 HK\$'000 |
|--|-------|----------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | 14 | <u>15,910</u> | <u>19,936</u> |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | | <u>194</u> | <u>214</u> |
| Cash and cash equivalents | 17 | <u>1,037</u> | <u>1,000</u> |
| | | <u>1,231</u> | <u>1,214</u> |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | | <u>542</u> | <u>460</u> |
| Amount due to a related company | 19 | <u>2</u> | <u>87</u> |
| | | <u>544</u> | <u>547</u> |
| NET CURRENT ASSETS | | <u>687</u> | <u>667</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>16,597</u> | <u>20,603</u> |
| CAPITAL AND RESERVES | | | |
| Issued capital | 20 | <u>7,950</u> | <u>7,950</u> |
| Reserves | 22 | <u>8,647</u> | <u>12,653</u> |
| | | <u>16,597</u> | <u>20,603</u> |



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Kou Ji Song

Director

Bu Dong Mei

Director

I. 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 June 2002, the Group commenced the trading of parts and components of digital versatile disc ("DVD") players.

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 1 (Revised): | "Presentation of financial statements" |
| SSAP 11 (Revised): | "Foreign currency translation" |
| SSAP 15 (Revised): | "Cash flow statements" |
| SSAP 34: | "Employee benefits" |

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 those SSAPs which have had a significant effect on the financial statements are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 29 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rate at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details about the impact of this SSAP are described in the accounting policy for foreign currencies below.

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

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

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rate at the balance sheet date. Further details about the impact of this change are described in the accounting policy for foreign currencies below.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits as at the balance sheet date. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 21 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.



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 2002. 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in 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 asset.

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.

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 rates used for this purpose are as follows:

| | |
|-----------------------------------|-----------|
| Furniture, fixtures and equipment | 16% - 18% |
|-----------------------------------|-----------|

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.

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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").

SSAP 30 "Business combinations" was adopted as at 1 January 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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, direct labour, 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. Related parties may be individuals or corporate entities.



3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates 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 using the net investment method. The profit and loss account of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss account of overseas subsidiaries and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rate at the balance sheet date. These changes have had no material effect on the financial statements.

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.

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share options scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.



4. SEGMENT INFORMATION

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) the trading of parts and components of DVD players;
- (b) the manufacture and sale of the data broadcasting hardware and software; and
- (c) the provision of data broadcasting and related services.

The trading of parts and components of DVD players was wholly derived from Tianjin Tianda Tiancai Co., Ltd. ("Tianda Tiancai") in accordance with an agreement entered into between China Data Broadcasting Trading Limited ("CDB Trading"), an indirect wholly-owned subsidiary of the Company, and Tianda Tiancai, on 25 April 2002. Further details of the transaction are set out in note 28(iii) to the financial statements.

No geographical segment information is presented as over 90% of the Group's turnover and assets were derived from customers and operations, respectively, in the PRC during the year.

No intersegment sales and transfers were transacted during the year (2001: Nil).

>> NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

Group

| | Trading of parts and components of DVD players | | Manufacture and sale of data broadcasting hardware and software | | Provision of data broadcasting and related services | | Total | |
|--|--|----------|---|----------|---|----------|----------------|----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | <u>108,681</u> | — | <u>1,514</u> | 3,684 | <u>1,371</u> | 2,352 | <u>111,566</u> | 6,036 |
| Segment results | <u>1,875</u> | — | <u>(1,246)</u> | (6,250) | <u>194</u> | 566 | <u>823</u> | (5,684) |
| Interest income and unallocated gains | | | | | | | <u>278</u> | 798 |
| Unallocated corporate expenses | | | | | | | <u>(5,750)</u> | (9,750) |
| Operating loss before tax | | | | | | | <u>(4,649)</u> | (14,636) |
| Tax | | | | | | | <u>—</u> | — |
| Loss before minority interests | | | | | | | <u>(4,649)</u> | (14,636) |
| Minority interests | | | | | | | <u>643</u> | 3,350 |
| Net loss from ordinary activities attributable to shareholders | | | | | | | <u>(4,006)</u> | (11,286) |



NOTES TO FINANCIAL STATEMENTS < <

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4. SEGMENT INFORMATION (continued)

Business segments (continued)

Group

| | Trading of parts and components of DVD players | | Manufacture and sale of data broadcasting hardware and software | | Provision of data broadcasting and related services | | Total | |
|---|--|----------|---|----------|---|----------|----------|----------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | — | — | 717 | 3,018 | 23 | 21 | 740 | 3,039 |
| Unallocated assets | — | — | — | — | — | — | 27,026 | 29,414 |
| Total assets | | | | | | | 27,766 | 32,453 |
| Segment liabilities | — | — | 36 | 241 | 185 | 147 | 221 | 388 |
| Unallocated liabilities | — | — | — | — | — | — | 5,349 | 5,220 |
| Total liabilities | | | | | | | 5,570 | 5,608 |
| Other segment information: | | | | | | | | |
| Amortisation of an intangible asset | — | — | 110 | 110 | — | — | 110 | 110 |
| Impairment of an intangible asset | — | — | — | 3,120 | — | — | — | 3,120 |
| Impairment of fixed assets | — | — | — | — | — | — | 53 | — |
| Depreciation | — | — | — | — | — | — | 147 | 196 |
| Provision for doubtful debts | — | — | — | 1,227 | — | 17 | — | 1,244 |
| Provision for prepayments, deposits and other receivables | — | — | 15 | 223 | — | — | 15 | 223 |
| Minimum subscription payments | — | — | — | — | — | — | — | 3,769 |
| Write back of provision for doubtful debts | — | — | (290) | — | — | — | (290) | — |

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>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. TURNOVER AND REVENUE

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

An analysis of turnover and other revenue is as follows:

| | 2002 HK\$'000 | 2001 HK\$'000 |
|---|--------------------------------|-------------------|
| <u>Turnover</u> | | |
| Sale of parts and components of DVD players | 108,681 | — |
| Sale of data broadcasting hardware and software | 1,514 | 3,684 |
| Income from the provision of data broadcasting and related services | 1,371 | 2,352 |
| | <hr/> 111,566 <hr/> | <hr/> 6,036 <hr/> |
| <u>Other revenue</u> | | |
| Interest income | 245 | 740 |
| Others | 33 | 58 |
| | <hr/> 278 <hr/> | <hr/> 798 <hr/> |



NOTES TO FINANCIAL STATEMENTS < <

31 December 2002

6. OPERATING LOSS BEFORE TAX

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

| | 2002 | 2001 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 109,841 | 5,364 |
| Cost of services provided | 1,177 | 1,769 |
| Depreciation | 147 | 196 |
| Intangible assets: | | |
| Amortisation for the year* | 110 | 110 |
| Impairment of an intangible asset | — | 3,120 |
| Research and development costs** | 86 | 198 |
| Minimum lease payments under operating leases | | |
| in respect of land and buildings | 135 | 222 |
| Auditors' remuneration | 398 | 395 |
| Staff costs (excluding directors' remuneration (note 7)): | | |
| Salaries and related staff costs | 1,203 | 1,197 |
| Pension contributions | 131 | 137 |
| | 1,334 | 1,334 |
| Loss on disposal of fixed assets | 1 | — |
| Loss on written off of fixed assets | 2 | 242 |
| Impairment of fixed assets | 53 | — |
| Provision for doubtful debts | — | 1,244 |
| Provision for slow-moving inventories | 1,474 | 2,411 |
| Provision for prepayments, deposits and other receivables | 15 | 223 |
| Minimum subscription payments | — | 3,769 |
| Exchange losses, net | 4 | — |
| Write back of provision for doubtful debts | (290) | — |
| Gain on dissolution of a subsidiary | — | (4) |
| Interest income | (245) | (740) |

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

** Research and development costs for the year included salaries and pension contributions of HK\$65,000 (2001: HK\$163,000) which are also included in staff costs as disclosed above.

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>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

7. DIRECTORS' REMUNERATION

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

| | 2002 | Group |
|-------------------------|-------------------|-------------------|
| | HK\$'000 | 2001 |
| | | HK\$'000 |
| Fees | <u>40</u> | <u>40</u> |
| Other emoluments: | | |
| Salaries and allowances | 626 | 748 |
| Pension contributions | <u>14</u> | <u>20</u> |
| | <u>640</u> | <u>768</u> |
| | 680 | 808 |
| | <u><u>680</u></u> | <u><u>808</u></u> |



The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2002 analysed on an individual basis were as follows: HK\$120,000 (2001: HK\$120,000), HK\$120,000 (2001: HK\$120,000), HK\$82,000 (2001: HK\$220,000), HK\$120,000 (2001: HK\$120,000), HK\$198,000 (2001: HK\$137,000) and nil (2001: HK\$51,000).

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2002 analysed on an individual basis were as follows: HK\$20,000 (2001: HK\$20,000) and HK\$20,000 (2001: 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 was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2001: three) directors, details of whose remuneration are set out in note 7 to the financial statements. Details of the remuneration paid to the remaining three (2001: two) highest paid, non-director employee during the year are set out as follows:

| | Group | |
|-------------------------|------------------------|-----------------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Salaries and allowances | 711 | 688 |
| Pension contributions | 21 | 22 |
| | <hr/> 732 <hr/> | <hr/> 710 <hr/> |

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

| | Number of employees | |
|----------------------|----------------------------|---------------|
| | 2002 | 2001 |
| Nil to HK\$1,000,000 | 3 | 2 |
| | <hr/> 3 <hr/> | <hr/> 2 <hr/> |

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 (2001: Nil).

Under the Income Tax Law of the PRC, the Company's subsidiary, Tianjin AVD Electron Co., Ltd. ("Tianjin AVD") (formerly known as Tianjin Tiancai Network Software Co., Ltd.) 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, Tianjin AVD is exempt 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. Tianjin AVD is also exempt 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 2002 dealt with in the financial statements of the Company is HK\$4,006,000 (2001: HK\$11,304,000).

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

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\$4,006,000 (2001: HK\$11,286,000), and the weighted average of 318,000,000 (2001: 318,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2001 and 2002 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 | 771 |
| Additions | 16 |
| Disposals | (1) |
| Written off | (2) |
| | <hr/> |
| At 31 December 2002 | 784 |
| | <hr/> |
| Accumulated depreciation and impairment: | |
| At beginning of year | 290 |
| Provided during the year | 147 |
| Impairment during the year recognised in the profit and loss account | 53 |
| Disposals | — |
| | <hr/> |
| At 31 December 2002 | 490 |
| | <hr/> |
| Net book value: | |
| At 31 December 2002 | 294 |
| | <hr/> <hr/> |
| At 31 December 2001 | 481 |
| | <hr/> <hr/> |

NOTES TO FINANCIAL STATEMENTS < <

31 December 2002

13. INTANGIBLE ASSETS

Group

| | HK\$'000 |
|---|--------------|
| Cost: | |
| At beginning of year and at 31 December 2002 | 3,631 |
| Accumulated amortisation: | |
| At beginning of year | 3,383 |
| Provided during the year | 110 |
| At 31 December 2002 | 3,493 |
| Net book value: | |
| At 31 December 2002 | 138 |
| At 31 December 2001 | 248 |

14. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---------------|----------|
| | 2002 | 2001 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 1,082 | 1,082 |
| Due from subsidiaries | 26,186 | 28,692 |
| | 27,268 | 29,774 |
| Provision for impairment | (1,082) | (1,082) |
| Provision for amounts due from subsidiaries | (10,276) | (8,756) |
| | 15,910 | 19,936 |

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

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

14. INTERESTS IN SUBSIDIARIES (continued)

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 | US\$10,000 | 100 | — | Investment holding |
| Tianjin AVD — note (i) | PRC | US\$5,000,000 | — | 70 | Provision of data broadcasting services and sale of related hardware and software |
| CDB Trading — note (ii) | Hong Kong | HK\$2 | — | 100 | Trading of parts and components of DVD players |

Notes:

- (i) Subsequent to the balance sheet date, Tianjin AVD completed a capital reduction on 22 January 2003 and the issued capital of this subsidiary company was, thereafter, reduced to US\$2,400,000. Further details of this capital reduction are set out in note 27 to the financial statements.
- (ii) Newly incorporated during the year.



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31 December 2002

15. INVENTORIES

| | 2002 | Group |
|------------------|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Raw materials | 120 | 1,529 |
| Work in progress | 73 | 931 |
| Finished goods | 127 | 419 |
| | <u>320</u> | <u>2,879</u> |

The carrying amount of inventories carried at net realisable value included in the above balance was nil (2001: Nil) as at the balance sheet date.

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:

| | 2002 | Group |
|------------------------------------|-----------------|------------------|
| | HK\$'000 | 2001 HK\$'000 |
| Within 3 months | 335 | 176 |
| 4 to 6 months | 82 | 1 |
| 7 to 12 months | — | 126 |
| Over 1 year | 1,266 | 1,979 |
| | <u>1,683</u> | <u>2,282</u> |
| Less: Provision for doubtful debts | <u>(1,286)</u> | <u>(2,215)</u> |
| | <u>397</u> | <u>67</u> |

>> NOTES TO FINANCIAL STATEMENTS

31 December 2002

17. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Cash and bank balances | 26,097 | 13,908 | 768 | 98 |
| Time deposits | 269 | 14,551 | 269 | 902 |
| | <u>26,366</u> | <u>28,459</u> | <u>1,037</u> | <u>1,000</u> |
| Less: Time deposit with original maturity of more than three months | — | (13,649) | — | — |
| Cash and cash equivalents | <u>26,366</u> | <u>14,810</u> | <u>1,037</u> | <u>1,000</u> |

18. TRADE PAYABLES

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

| | Group | |
|-----------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 |
| Within 3 months | 182 | 131 |
| 4 to 6 months | — | 48 |
| Over 1 year | — | 164 |
| | <u>182</u> | <u>343</u> |

19. AMOUNTS/AMOUNT DUE TO RELATED COMPANIES/ A RELATED COMPANY

The balances with related companies are unsecured, interest-free and have no fixed terms of repayment.

20. SHARE CAPITAL

Shares

| | Company | |
|--|------------------|------------------|
| | 2002 HK\$'000 | 2001 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> |



20. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme are included in note 21 to the financial statements.

21. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Share options scheme" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also required under Rules 23.07 and 23.08 of Chapter 23 of the Listing Rules.

On 11 January 2000, the Company approved 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 scheme became effective upon the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM") on 24 January 2000.

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 higher 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.

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

The following share options were outstanding under the Scheme during the year:

| Category of participant | Number of share options | | | Date of grant of share options | Exercise period of share options | Exercise price of share options HK\$ |
|-------------------------|-------------------------|-----------------------------------|---------------------|--------------------------------|------------------------------------|---|
| | At 1 January 2002 | Grant/ (exercise) during the year | At 31 December 2002 | | | |
| Employees | 12,000,000 | — | 12,000,000 | 3 February 2000 | 3 February 2000 to 3 February 2007 | 1.775 |

>> NOTES TO FINANCIAL STATEMENTS

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22. RESERVES

Group

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Exchange fluctuation reserve HK\$'000 | Capital reserve HK\$'000 | PRC reserve fund HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---|------------------------------------|--|--------------------------------|------------------------------------|-----------------------------------|-------------------|
| At 1 January 2001 | 28,537 | 885 | 76 | 307 | — | (5,848) | 23,957 |
| Exchange realignment | — | — | (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 and at 1 January 2002 | 28,537 | 885 | 58 | 307 | 676 | (17,810) | 12,653 |
| Net loss for the year | — | — | — | — | — | (4,006) | (4,006) |
| At 31 December 2002 | 28,537 | 885 | 58 | 307 | 676 | (21,816) | 8,647 |

Company

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---|------------------------------------|-----------------------------------|-------------------|
| At 1 January 2001 | 28,537 | 885 | (5,465) | 23,957 |
| Net loss for the year | — | — | (11,304) | (11,304) |
| At 31 December 2001 and 1 January 2002 | 28,537 | 885 | (16,769) | 12,653 |
| Net loss for the year | — | — | (4,006) | (4,006) |
| At 31 December 2002 | 28,537 | 885 | (20,775) | 8,647 |

The Group's contributed surplus 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.

The Company's contributed surplus represents the excess of the fair value of the shares of Verified Solutions acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

23. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Dissolution of a subsidiary

| | 2002 | 2001 |
|---|-----------------|--------------|
| | HK\$'000 | 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>—</u> | <u>1,400</u> |
| Gain on dissolution of a subsidiary | — | 4 |
| | <u>—</u> | <u>1,404</u> |
| Satisfied by: | | |
| Cash | — | 1,404 |
| | <u>—</u> | <u>1,404</u> |

An analysis of the net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary is as follows:

| | 2002 | 2001 |
|--|-----------------|------------|
| | HK\$'000 | HK\$'000 |
| Cash consideration | — | 1,404 |
| Cash and bank balances as at the date of dissolution | — | (1,408) |
| | <u>—</u> | <u>—</u> |
| Net outflow of cash and cash equivalents in respect of the dissolution of a subsidiary | <u>—</u> | <u>(4)</u> |

The subsidiary dissolved in 2001 had no significant impact in respect of the Group's net operating, investing and financing cash flows.

In addition, the results of this subsidiary had no significant impact on the consolidated turnover or the consolidated loss after tax for the year ended 31 December 2001.

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24. CONTINGENT LIABILITIES

The Company's subsidiary, Tianjin AVD, was a defendant in a lawsuit brought by a supplier in 2001 claiming approximately HK\$99,000 together with an interest of approximately HK\$3,800. 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 Tianjin AVD, and the aforesaid supplier filed an appeal against the judgement on 22 December 2001. On 25 February 2002, the Court of Appeal in Tianjin overturned the judgement made by the District Court. The case was then re-heard by the District Court on 26 November 2002 under the instructions of the Court of Appeal. On 14 March 2003, the District Court laid down a judgement in favour of Tianjin AVD under which the Group is not liable to any claim and, accordingly, no provision has been accounted for in the Group's financial statements in respect of the matter. The supplier has 15 days from the date of receiving the judgement within which to make a further appeal, should it so decide.

25. 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 2 years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:



| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2002 HK\$'000 | 2001 HK\$'000 | 2002 HK\$'000 | 2001 HK\$'000 |
| Within one year | 141 | 232 | 84 | 138 |
| In the second to fifth years, inclusive | 84 | 25 | 84 | 6 |
| | <u>225</u> | <u>257</u> | <u>168</u> | <u>144</u> |

26. COMMITMENTS

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

27. POST BALANCE SHEET EVENTS

- (i) On 22 January 2003, Tianjin AVD completed a capital reduction exercise under which the issued capital of Tianjin AVD was reduced from US\$5 million to US\$2.4 million. As a result of the capital reduction, US\$2.6 million were returned in cash to the shareholders, namely Verified Solutions and Tianda Tiancai, in proportion to their shareholdings.
- (ii) On 23 December 2002, the board of the directors of the Company announced that Ultra Challenge has entered into discussions with a substantial shareholder of the Company, Apex Digital Inc. ("Apex Digital") which holds 80,000,000 shares, representing 25.16% interest in the Company, in respect of the intended acquisition of the shares of the Company by Apex Digital from Ultra Challenge (the "Proposal"). If the Proposal materialises, it will result in a change of control of the Company and will trigger an obligation on the part of Apex Digital to make a general offer in compliance with Rule 26 of the Code on Takeovers and Mergers to acquire all the issued shares of the Company. As at the date on which these financial statements were approved, no legally binding contract and/or agreement to the Proposal has been entered into between Ultra Challenge and Apex Digital.

28. RELATED PARTY TRANSACTIONS

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

| | | 2002 | Group |
|---|--------------|-----------------|------------------|
| | <i>Notes</i> | HK\$'000 | 2001 HK\$'000 |
| Rentals paid to Tianda Tiancai, a shareholder of Tianjin AVD | <i>(i)</i> | 71 | 160 |
| Printing charges paid to Tianda Tiancai | <i>(i)</i> | 2 | 21 |
| Sale of raw materials to Tianda Tiancai | <i>(ii)</i> | 16 | — |
| Sale of parts and components of DVD players to Tianda Tiancai | <i>(iii)</i> | 108,681 | — |
| | | 108,770 | 181 |

Tianjin AVD was granted by Tianda Tiancai the right to use the "Tiancai" trademark in the normal course of business for no consideration.

Tianda Tiancai is a joint stock limited company which holds a 30% interest in Tianjin AVD.

>> NOTES TO FINANCIAL STATEMENTS

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28. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The rentals and printing charges were charged at mutually-agreed amounts.
- (ii) The transactions were based on terms as agreed between the Group and the related party.
- (iii) Pursuant to an agreement (the "Agreement") entered into between CDB Trading and Tianda Tiancai on 25 April 2002, CDB Trading agreed to act as a technical consultant and sourcing agent for parts and components of DVD players for Tianda Tiancai for the period from 25 April 2002 to 31 December 2002. During the year, no technical consultancy services were provided by the Group to Tianda Tiancai. The sale of parts and components of DVD players to Tianda Tiancai are determined on a cost plus basis at a margin of about 2%.

On 31 December 2002, the Agreement expired and has not been renewed at the date of approval of these financial statements.

29. 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.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 March 2003.

