
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Data Broadcasting Holdings Limited, you should at once hand this document and the accompanying form of acceptance and transfer to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CHINA DATA BROADCASTING
HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

**APEX DIGITAL, INC.**
(Incorporated in California, USA)

**UNCONDITIONAL CASH OFFER BY
SOMERLEY LIMITED ON BEHALF OF APEX DIGITAL, INC. TO
ACQUIRE ALL THE ISSUED SHARES OF
CHINA DATA BROADCASTING HOLDINGS LIMITED
(OTHER THAN THOSE ALREADY OWNED BY APEX DIGITAL, INC.
AND PARTIES ACTING IN CONCERT WITH IT)**

**Financial adviser to
China Data Broadcasting Holdings Limited**



Oriental Patron Asia Limited

**Financial adviser to
Apex Digital, Inc.**



SOMERLEY LIMITED

**Independent financial adviser to the Independent Board Committee of
China Data Broadcasting Holdings Limited**

ALTUS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 13 of this document.

A letter from Somerley Limited containing, among other things, details of the terms of the Offer, is set out on pages 14 to 22 of this document.

A letter of advice from Altus Capital Limited containing its opinion and advice to the Independent Board Committee of China Data Broadcasting Holdings Limited is set out on pages 24 to 35 of this document. A letter from the Independent Board Committee of China Data Broadcasting Holdings Limited to the Independent Shareholders is set out on page 23 of this document.

The procedure for acceptance and settlement of the Offer is set out in Appendix I to this document and in the accompanying form of acceptance and transfer. Acceptances of the Offer must be received by Hong Kong Registrars Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:00 p.m. on 30th June, 2003 or such later date as the Offeror may determine and announce.

9th June, 2003

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EXPECTED TIMETABLE

Offer opens for acceptanceMonday, 9th June, 2003

Latest time and date for acceptance
of the Offer4:00 p.m. on Monday, 30th June, 2003

Closing date of the OfferMonday, 30th June, 2003

Announcement in respect of the closing of the Offer
and acceptances under the Offer
to appear in newspapers onWednesday, 2nd July, 2003

Latest date for posting of remittances for the amounts
due under the Offer in respect of valid acceptances
received on or before the closing date of the OfferThursday, 10th July, 2003

Notes:

1. The Offer, which is unconditional, will be closed on Monday, 30th June, 2003 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code.
2. The consideration payable for the Shares tendered under the Offer will be paid within 10 days after the receipt by the Registrar of the requisite documents from the accepting Shareholders.
3. Although the Offeror does not intend to revise or extend the Offer, it reserves the right to do so.
4. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

All time references contained in the circular refer to Hong Kong time.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Altus”	Altus Capital Limited, the independent financial adviser to the independent board committee of the Company in relation to the Offer and a licensed corporation under the SFO
“Announcement”	the announcement dated 20th May, 2003 jointly made by Apex Digital and the Company in relation to the Deeds and the Offer
“Apex Digital” or “Offeror”	Apex Digital, Inc., a company incorporated in California, USA. It was founded by Mr. Ji and Mr. Hsu and is beneficially owned as to 65% by Mr. Ji and the remaining 35% by United Delta. Immediately prior to entering into the Deeds, Apex Digital was a substantial shareholder of the Company, owning 80,000,000 Shares, which represent approximately 25.16% of the total issued share capital of the Company
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	board of the Directors
“CCASS”	the Central Clearing and Settlement System established and operated by the HKSCC
“Company”	China Data Broadcasting Holdings Limited, a company incorporated in Bermuda with limited liability, the securities of which are listed on GEM
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Deeds”	collectively, the seven deeds of gift dated 15th May, 2003 separately entered into between Ultra Challenge and each of the Recipients
“Director(s)”	director(s) of the Company
“DVD”	digital versatile disc
“Executive”	the executive director of the Corporate Finance Division of the SFC or any of his delegates
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM

DEFINITIONS

“Gift”	the 171,900,000 Shares in aggregate, representing approximately 54.05% of the total issued share capital of the Company, transferred to the Recipients from Ultra Challenge pursuant to the Deeds as absolute and unconditional gifts
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board comprising Mr. Li Shan Hai and Mr. Wang Fu Sun, appointed to advise the Independent Shareholders in respect of the Offer
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“Kingston Securities”	Kingston Securities Limited, a licensed corporation under the SFO
“Last Trading Day”	26th March, 2003, being the last trading day of the Stock Exchange immediately preceding the suspension of trading in the Shares pending release of the Announcement
“Latest Practicable Date”	6th June, 2003, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information for inclusion in this document
“Loan Agreement”	a loan agreement dated 9th May, 2003 entered into between Apex Digital and Kingston Securities pursuant to which Kingston Securities has agreed to make available to Apex Digital a loan facility up to the principal sum of HK\$100,000,000 for the purpose of financing the Offer
“Mr. Hsu”	Mr. Anle Hsu Ann Keh, the co-founder and a director of Apex Digital, who is beneficially interested in 17.5% of the total issued share capital of Apex Digital. Mr. Hsu is a proposed Director to be nominated by Apex Digital
“Mr. Ji”	Mr. David Ji Long Fen, the co-founder and the president of Apex Digital, who is beneficially interested in 82.5% of the total issued share capital of Apex Digital. Mr. Ji is a proposed Director to be nominated by Apex Digital
“Mr. Lau”	Mr. Mark Lau, who is proposed by Apex Digital to be appointed to a senior management position within the Group (but will not at the outset be appointed as a Director)

DEFINITIONS

“Mr. Wang”	Mr. Wang Guang Xin, an executive Director and the brother in law of Professor Kou
“Mr. Xu”	Mr. Xu Gaohui, who is proposed by Apex Digital to be appointed to a senior management position within the Group (but will not at the outset be appointed as a Director)
“Ms. Bu”	Ms. Bu Dongmei, an executive Director
“Ms. Kou”	Ms. Kou Yue, a daughter of Professor Kou and an employee of the Group
“Offer”	the unconditional cash offer to be made by Somerley on behalf of Apex Digital in accordance with the Takeovers Code to acquire all the issued Shares not already owned by Apex Digital and parties acting in concert with it
“Offer Period”	the period from the date when an announcement dated 23rd December, 2002 was made by the Company in relation to a possible change of control until the date when the Offer closes for acceptances
“Offer Price”	the offer price for all the Shares under the Offer at HK\$1.77 per Share
“Offer Share(s)”	all the issued Share(s) (other than those already owned by Apex Digital and parties acting in concert with it)
“Oriental Patron”	Oriental Patron Asia Limited, the financial adviser to the Company in relation to the Offer and a licensed corporation under the SFO
“PRC”	People’s Republic of China
“Professor Kou”	Professor Kou Jisong, the Chairman and a director of the Company. Professor Kou was one of the joint trustees of the Ultra Challenge Trust immediately prior to its termination and is deemed to be interested in the Shares comprised in the Gift
“Recipients”	the recipients of Shares under the Deeds, being Apex Digital, Mr. Ji, Mr. Xu, Mr. Lau, Ms. Kou, Ms. Bu and Mr. Wang
“Registrar”	the Company’s Hong Kong branch share registrar, Hong Kong Registrars Limited, at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date

DEFINITIONS

“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.025 each in the share capital of the Company
“Share Option(s)”	share option(s) granted under the Company’s share option scheme adopted on 11th January, 2000, entitling the holder(s) thereof to subscribe for each new Share at an exercise price of HK\$1.775, subject to adjustment, during the period from 3rd February, 2000 to 3rd February, 2007
“Somerley”	Somerley Limited, the financial adviser to Apex Digital in relation to the Offer and a licensed corporation under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“UC Trustees”	Professor Kou and Mr. Choi Kwok Yat, who, prior to the termination of the Ultra Challenge Trust on 14th March, 2003, together held the entire issued share capital of Ultra Challenge as joint trustees on terms of a fixed trust
“Ultra Challenge”	Ultra Challenge Limited, a company incorporated in the British Virgin Islands that held 171,900,000 Shares, representing approximately 54.05% of the total issued share capital of the Company, immediately prior to entering into the Deeds
“United Delta”	United Delta, Inc., a private company incorporated in the USA that is equally owned by Mr. Ji and Mr. Hsu
“USA”	the United States of America
“%”	per cent.
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong



CHINA DATA
BROADCASTING

CHINA DATA BROADCASTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Professor Kou Jisong (*Chairman*)

Bu Dongmei

Professor Li Min Qiang

Wang Guang Xin

Li Shan Hai**

Wang Fu Sun**

*** Independent non-executive Directors*

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

The PRC

Hong Kong liaison office:

16th Floor

Hing Yip Commercial Centre

272-284 Des Voeux Road Central

Hong Kong

9th June, 2003

To the Independent Shareholders,

Dear Sir/Madam,

**UNCONDITIONAL CASH OFFER BY
SOMERLEY LIMITED ON BEHALF OF APEX DIGITAL, INC.
TO ACQUIRE ALL THE ISSUED SHARES OF
CHINA DATA BROADCASTING HOLDINGS LIMITED
(other than those already owned by Apex Digital, Inc.
and parties acting in concert with it)**

INTRODUCTION

It was jointly announced by the Company and Apex Digital on 20th May, 2003 that Ultra Challenge separately entered into seven deeds of gift with Apex Digital, Mr. Ji, Mr. Xu, Mr. Lau, Ms. Kou, Ms. Bu and Mr. Wang on 15th May, 2003. Pursuant to the Deeds, Ultra Challenge has transferred to the Recipients by way of absolute and unconditional gifts, the legal and beneficial interests of 171,900,000 Shares in aggregate, representing approximately 54.05% of the total issued share capital of the Company.

LETTER FROM THE BOARD

Completion of the Deeds took place on 15th May, 2003. After completion of the Deeds, Ultra Challenge retained no shareholding interest in the Company. Apex Digital, together with parties acting in concert with it, became the controlling shareholder of the Company. The aggregate shareholding interest of Apex Digital and parties acting in concert with it in the Company upon completion of the Deeds increased from approximately 25.16% to approximately 79.21%. Accordingly, Somerley, on behalf of Apex Digital, will make an unconditional cash offer in compliance with Rule 26 of the Takeovers Code to all Shareholders (other than Apex Digital and parties acting in concert with it) to acquire all the issued Shares not already owned by Apex Digital and parties acting in concert with it.

Currently, there are 318,000,000 Shares in issue. Apex Digital and parties acting in concert with it in aggregate now beneficially own 251,900,000 Shares, representing approximately 79.21% of the total issued share capital of the Company. Accordingly, there will be 66,100,000 Shares (or approximately 20.79% of the total issued share capital of the Company) subject to the Offer.

The purpose of this document is to provide you with, inter alia, information relating to the Group and the Offer. The principal terms of the Offer are set out in the letter from Somerley on pages 14 to 22 of this document and further terms of the Offer and other information required by the Takeovers Code are set out in the appendices to this document and in the accompanying form of acceptance and transfer. The letter from Altus containing its advice to the Independent Board Committee in relation to the Offer is set out on pages 24 to 35 of this document.

TERMINATION OF THE ULTRA CHALLENGE TRUST

Prior to entering into the Deeds, the controlling shareholder of the Company was Ultra Challenge, the shares of which were held by the UC Trustees on terms of a fixed trust for 18 beneficiaries, known as the Ultra Challenge Trust. The Ultra Challenge Trust was formed in January 2000 in the context of the listing of the Company, with a view to rewarding and motivating the Group's research and development professionals and other key personnel pursuing the data broadcasting business. The initial trust assets of the Ultra Challenge Trust were settled by Professor Kou in favour of the initial beneficiaries at nil consideration. The changes of beneficiaries under the Ultra Challenge Trust prior to its termination were as follows:

	Upon listing of the Company on 24th January, 2000 and prior to 9th January, 2002	The period from 9th January to 12th May, 2002 (note 1)	Immediately prior to termination of Ultra Challenge Trust (note 2)
Names of the beneficiaries	% of interest in the Ultra Challenge Trust		
<i>Existing Directors and employees of the Group</i>			
Ms. Bu	—	10.0	10.0
Mr. Wang	10.0	10.0	10.0
Mr. Zhang Renli	10.0	10.0	10.0

LETTER FROM THE BOARD

Names of the beneficiaries	Upon listing of the Company on 24th January, 2000 and prior to 9th January, 2002	The period from 9th January to 12th May, 2002 (note 1)	Immediately prior to termination of Ultra Challenge Trust (note 2)
	% of interest in the Ultra Challenge Trust		
<i>Existing Directors and employees of the Group</i>			
Mr. Li Jiancheng	10.0	10.0	10.0
Ms. Yue Shishuang	8.0	8.0	8.0
Professor Li Min Qiang	10.0	10.0	3.0
Mr. Wang Chaowen	—	—	2.5
Mr. Cheng Ze	—	—	2.5
Mr. Xiong Kai	—	—	2.5
Mr. Ye Ting	—	—	2.5
Ms. Lu Yan Hong	—	—	2.0
Mr. Han Tao	—	—	2.0
Mr. Ni Yue	—	—	2.0
	<u>48.0</u>	<u>58.0</u>	<u>67.0</u>
Sub-total	<u>48.0</u>	<u>58.0</u>	<u>67.0</u>
<i>Ex-Directors and ex-employees of the Group</i>			
Mr. Dong Jian Xin	10.0	10.0	10.0
Mr. Tang Bin	10.0	10.0	10.0
Mr. Li Yongchao	6.0	6.0	6.0
Mr. Sun Lianwen	6.0	6.0	6.0
Mr. Yao Xiaodong	10.0	10.0	1.0
Mr. Ji Songqiao	6.0	—	—
Ms. Cai Zhipei	4.0	—	—
	<u>52.0</u>	<u>42.0</u>	<u>33.0</u>
Sub-total	<u>52.0</u>	<u>42.0</u>	<u>33.0</u>
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Notes:

- On 9th January, 2002, all beneficial interests in the Ultra Challenge Trust held by Mr. Ji Songqiao and Ms. Cai Zhipei were disposed of to Ms. Bu at the nominal consideration of HK\$1 for each sale.
- On 13th May, 2002, Professor Li Min Qiang disposed of 2.5%, 2.5% and 2% interests in the Ultra Challenge Trust to Mr. Wang Chaowen, Mr. Cheng Ze and Ms. Lu Yan Hong respectively at the nominal consideration of HK\$1 for each sale. On the same date, Mr. Yao Xiao Dong disposed of 2.5%, 2.5%, 2% and 2% interests in the Ultra Challenge Trust to Mr. Xiong Kai, Mr. Ye Ting, Mr. Han Tao and Mr. Ni Yue respectively at the nominal consideration of HK\$1 for each sale.

LETTER FROM THE BOARD

It has always been the intention of Professor Kou, the promoter and Chairman of the Company, to reward and motivate the management and employees for their contribution to the performance of the Group. Given that the operating results of the Company since its listing have not been as good as Professor Kou and the other Directors had hoped to achieve, the beneficiaries have agreed to re-distribute the Shares held by Ultra Challenge to the proposed new management of the Company, namely the Recipients.

On 14th March, 2003, beneficiaries under the Ultra Challenge Trust resolved to instruct the UC Trustees to terminate the Ultra Challenge Trust and the related trust deed and to vest the legal title to all of the issued share capital of Ultra Challenge in the beneficiaries according to their pro-rata entitlements under the Ultra Challenge Trust. The relevant shares in Ultra Challenge were transferred to 17 of the 18 beneficiaries on that same day.

As one of the beneficiaries, Mr. Sun Lianwen (who held a beneficial interest of 6% of Ultra Challenge), did not attend or appoint a proxy to attend the meeting which was held on 14th March, 2003 for the beneficiaries to approve, inter alia, the termination of the Ultra Challenge Trust and the vesting in the beneficiaries of all the legal and beneficial interests held by the UC Trustees in Ultra Challenge, the relevant shares in Ultra Challenge have not been transferred to him. As a consequence, Mr. Sun Lianwen's entitlement in Ultra Challenge has been held by UC Trustees under a bare trust. On 14th March, 2003, a resolution of the members of Ultra Challenge authorizing the sole director of Ultra Challenge to gift 171,900,000 Shares to the Recipients was passed. According to the legal advice given to Ultra Challenge on 19th May, 2003, all authorizations and approvals required under the British Virgin Islands law for Ultra Challenge to make the gift have been obtained.

On 15th May, 2003, seven deeds of gift were entered into between Ultra Challenge on the one part and each of the seven Recipients on the other, under which Ultra Challenge transferred the 171,900,000 Shares held by it (representing its entire legal and beneficial interest in the Company, or approximately 54.05% of the total issued share capital of the Company) to the Recipients. Therefore, following completion of the Deeds, Mr. Sun Lianwen will continue to own a 6% beneficial interest in Ultra Challenge and Ultra Challenge will no longer hold any shareholding interest in the Company.

Following completion of the Deeds, on 16th May, 2003, all the shareholders of Ultra Challenge (other than Mr. Sun Lianwen) subsequently transferred their interests in Ultra Challenge to Professor Kou. 13 of the 18 shareholders gifted their respective interests in Ultra Challenge (in aggregate amounting to 67% of the issued share capital of Ultra Challenge) to Professor Kou by way of deeds of gift at nil consideration. Four shareholders, namely Mr. Dong Jianxin, Mr. Tang Bin, Mr. Li Yongchao and Mr. Yao Xiao Dong (being ex-employees of the Group), each agreed to sign a stock transfer form and transfer his respective interests in Ultra Challenge (in aggregate amounting to 27% of the issued share capital of Ultra Challenge) to Professor Kou for an aggregate consideration of HK\$540,000 received by the four shareholders in accordance with their respective pro rata interests in Ultra Challenge.

Save for the four ex-employees referred to above (who received an aggregate consideration of HK\$540,000 for their aggregate 27% interests in Ultra Challenge) and save for Ms. Bu and Mr. Wang (who, as Recipients, were gifted an aggregate 10% interest in the Company, prior to the gifting by them to Professor Kou of an aggregate 20% interest in Ultra Challenge), none of the beneficiaries

LETTER FROM THE BOARD

under the Ultra Challenge Trust received any direct or indirect consideration or compensation for transferring his or her respective interests in Ultra Challenge to Professor Kou. Other than the documents mentioned above and the Deeds, no other agreements concerning the transfers of shares in Ultra Challenge by the 18 individuals to Professor Kou have been or will be entered into.

The direct shareholdings of the Company immediately before and after the termination of the Ultra Challenge Trust and before and after the completion of the Deeds are as below:

Names of the Shareholders	Before termination of the Ultra Challenge Trust	Approximate % of total issued share capital of the Company	After termination of the Ultra Challenge Trust		After the completion of the Deeds	Approximate % of total issued share capital of the Company
			but before the completion of the Deeds	% of total issued share capital of the Company		
Ultra Challenge	171,900,000 <i>(Note 1)</i>	54.05	171,900,000	54.05	— <i>(Note 2)</i>	—
Apex Digital	80,000,000	25.16	80,000,000	25.16	118,250,000	37.18
Mr. Ji <i>(Note 3)</i>	—	—	—	—	47,700,000	15.00
Mr. Xu <i>(Note 3)</i>	—	—	—	—	22,350,000	7.03
Mr. Lau <i>(Note 3)</i>	—	—	—	—	15,900,000	5.00
Ms. Bu <i>(Note 4)</i>	—	—	—	—	15,900,000	5.00
Mr. Wang <i>(Note 4)</i>	—	—	—	—	15,900,000	5.00
Ms. Kou <i>(Note 4)</i>	—	—	—	—	15,900,000	5.00
Public <i>(Note 5)</i>	<u>66,100,000</u>	<u>20.79</u>	<u>66,100,000</u>	<u>20.79</u>	<u>66,100,000</u>	<u>20.79</u>
Total	<u>318,000,000</u>	<u>100.00</u>	<u>318,000,000</u>	<u>100.00</u>	<u>318,000,000</u>	<u>100.00</u>

Notes:

- The interests of the 18 beneficiaries in Ultra Challenge immediately before termination of the Ultra Challenge Trust are set out earlier in this letter. Based on the closing price of HK\$3.95 per Share quoted on the Stock Exchange as at the Last Trading Day, the market value of the entire interests in 171,900,000 Shares held by Ultra Challenge, representing approximately 54.05% of the total issued share capital of the Company, amounted to approximately HK\$679.0 million.
- After completion of the Deeds, all interests in Ultra Challenge (save for a 6% interest in Ultra Challenge beneficially owned by Mr. Sun Lianwen) were gifted or transferred to Professor Kou on 16th May, 2003 as described above.
- Mr. Ji is a proposed Director and Mr. Xu and Mr. Lau are proposed senior management staff of the Group, in each case as nominated by Apex Digital.
- Ms. Bu, Mr. Wang and Ms. Kou are existing Directors and/or employees of the Group.

LETTER FROM THE BOARD

5. The 66,100,000 Shares held by the public include 8,100,000 Shares, representing approximately 2.5% of the total issued share capital of the Company, held by Pacific Top Holding Limited, a fellow subsidiary of the Company's former retained sponsor, Oriental Patron. Oriental Patron has ceased to be the Company's retained sponsor since 1st January, 2003.

THE OFFER

Somerley is making the Offer on behalf of the Offeror, subject to the terms set out in the letter from Somerley on pages 14 to 22 of this document and in Appendix I and in the accompanying form of acceptance and transfer, for all the issued Shares not already owned by the Offeror or parties acting in concert with it on the following basis:

For each Share HK\$1.77 payable in cash

The Offer Price of HK\$1.77 is equivalent to the highest price paid for any Share acquired by Apex Digital or parties acting in concert with it in the past six months period preceding the commencement of the Offer Period.

There are at present 12,000,000 outstanding Share Options, held as to 4,000,000 outstanding Share Options each by three employees of the Company, namely Mr. Cheng Ze, Mr. Han Tao and Mr. Wang Chao Ming. They have each given an irrevocable undertaking to Apex Digital not to exercise the Share Options before the close of the Offer and not to require Apex Digital to extend the Offer or make to them any comparable offer arising out of or in relation to the Offer in respect of their holding of the Share Options.

Based on 318,000,000 Shares in issue on the Latest Practicable Date, the Offer values the entire issued share capital of the Company at approximately HK\$563 million.

By accepting the Offer, Shareholders will sell their Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions declared, made or paid on or after 15th May, 2003, being the date of the Deeds. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

Stamp duty at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the amount payable in respect of relevant acceptances will be payable by the Shareholders. The Offeror will pay for such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to Shareholders on acceptance of the Offer.

INFORMATION ON THE COMPANY

Directors and management of the Group

In addition to Mr. Ji and Mr. Hsu, the Offeror will nominate Ms. Alice Hsu Chu Yun and Mr. Stuart Blake as executive Directors to the Board. It is expected that the appointment of these new executive Directors will take effect upon the closing of the Offer. Professor Kou and Ms. Bu, existing

LETTER FROM THE BOARD

executive Directors, will remain on the Board. Each of Professor Kou and Ms. Bu separately entered into a Director's service contract with the Company for an initial term of two years commencing from January 2000 and June 2000, respectively. The two year term has expired and the contracts may now be terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing. Mr. Wang and Professor Li Min Qiang, existing executive Directors, and Mr. Li Shan Hai and Mr. Wang Fu Sun, the existing independent non-executive Directors, will resign or have expressed their intention to resign after the closing of the Offer. Upon such resignations, new independent non-executive Directors will be nominated to the Board in compliance with the requirements of Rule 5.05 of the GEM Listing Rules. The biographies of the new Directors nominated by the Offeror are set out in the paragraph headed "Proposed change of board composition of the Company" in the letter from Somerley contained in this document.

Save as disclosed above, it is the intention of the Offeror that there will be no material change in the management and employees of the Group.

Business of the Group

The Company is an investment holding company and its subsidiaries are principally engaged in (i) the manufacture and sale of data broadcasting hardware and software; (ii) the provision of data broadcasting and related services and; (iii) acting as technical consultant and sourcing agent for parts and components of DVD players in the PRC. For the year ended 31st December, 2002, the Group's DVD business accounted for approximately 97.4% of the Group's turnover. Following the close of the Offer, the Group's DVD business is expected to continue to contribute significantly to the Group's revenue source.

Intentions of the Offeror

The Offeror intends that the existing principal activities of the Group will remain unchanged, and it has no intention of injecting any assets or business into the Group within one year after completion of the Offer. It also has no intention to re-deploy the fixed assets of the Group following the close of the Offer. Notwithstanding the foregoing, Apex Digital intends to review the business operations of the Group following closing of the Offer and to implement any appropriate measures to rationalise such business operations where it is in the interests of the Group to do so.

Your attention is drawn to the letter from Somerley in this document which contains information on, and intentions of, the Offeror regarding the Group.

Independent Board Committee

An Independent Board Committee comprising Mr. Li Shan Hai and Mr. Wang Fu Sun has been established to advise the Independent Shareholders in relation to the Offer. The Board has also appointed Altus to advise the Independent Board Committee in relation to the Offer.

The letter from the Independent Board Committee containing its advice to the Independent Shareholders on the above matters is set out on page 23 of this document. The letter from Altus containing its advice to the Independent Board Committee on the above matters is set out on pages 24 to 35 of this document.

LETTER FROM THE BOARD

Financial Results

The audited consolidated net loss of the Group for the year ended 31st December, 2001 and 31st December, 2002 were approximately HK\$11.29 million and approximately HK\$4.01 million, respectively. The audited consolidated net asset value of the Group as at 31st December, 2001 and 31st December, 2002 were approximately HK\$20.60 million and approximately HK\$16.60 million, respectively.

Your attention is drawn to Appendix II to this document which contains the audited financial statements of the Group for the two years ended 31st December, 2002.

MAINTAINING THE LISTING STATUS OF THE COMPANY

It is the intention of the Offeror to maintain the listing of the Company on the Stock Exchange after the close of the Offer. The Offeror and the new Directors to be nominated by the Offeror to the Board have undertaken to the Stock Exchange that appropriate steps will be taken if the Company's public float falls below 20% immediately after the close of the Offer. These include arranging for a sale of the existing Shares by Apex Digital and the management shareholders (who are not regarded as members of the public for the purpose of the GEM Listing Rules) after completion of the Offer to persons who are independent of the chief executive, any directors (and any person intended to be appointed as a Director), management shareholders and substantial shareholders of the Company and their associate and/or such other steps as may be appropriate to restore the minimum percentage of securities of the Company held in the public hands in accordance with the GEM Listing Rules.

The Stock Exchange has stated that, if less than 20% of the issued Shares are in public hands following completion of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.

In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing application as set out in the GEM Listing Rules.

LETTER FROM THE BOARD

EX-SPONSOR'S INTEREST

As at the Latest Practicable Date, Pacific Top Holding Limited, a fellow subsidiary of the Company's former retained sponsor, Oriental Patron, is interested in 8,100,000 Shares, representing approximately 2.5% of the total issued share capital of the Company. Save as disclosed herein, none of Oriental Patron, its directors, employees or associates as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules had any interests in the share capital of the Company as at the date of this document.

Pursuant to the agreement dated 1st November, 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 16th March, 2000 to 31st December, 2002. Oriental Patron has ceased to be the Company's retained sponsor since 1st January, 2003. Nevertheless, Oriental Patron has been appointed as the financial adviser to the Company in relation to the Offer.

FURTHER INFORMATION

Your attention is drawn to the letter from Somerley contained in this document, which contains the Offer, information on Apex Digital and two other recipients and the intentions of the Offeror regarding the future of the Group.

Your attention is also drawn to the letter from the Independent Board Committee on page 23 and the letter from Altus on pages 24 to 35 of this document which contain the respective recommendations of the Independent Board Committee and the advice from Altus as to whether the terms of the Offer are fair and reasonable so far as Independent Shareholders are concerned respectively.

Your attention is also drawn to the information set out in the appendices to this document.

Yours faithfully,
For and on behalf of the Board of
China Data Broadcasting Holdings Limited
Professor Kou Jisong
Director



Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place, Central
Hong Kong

9th June, 2003

To the Independent Shareholders

Dear Sir or Madam,

UNCONDITIONAL MANDATORY CASH OFFER

INTRODUCTION

On 20th May, 2003, the respective boards of directors of the Company and the Offeror jointly announced that on 15th May, 2003, Ultra Challenge separately entered into seven deeds of gift with Apex Digital, Mr. Ji, Mr. Xu, Mr. Lau, Ms. Kou, Ms. Bu and Mr. Wang. Pursuant to the Deeds, Ultra Challenge has transferred to the Recipients by way of absolute and unconditional gifts, the legal and beneficial interests of 171,900,000 Shares in aggregate, representing approximately 54.05% of the total issued share capital of the Company as at the Latest Practicable Date.

Prior to the Deeds, the Offeror already owned 80,000,000 Shares, representing approximately 25.16% of the existing issued share capital of the Company. After completion of the Deeds on 15th May, 2003, Apex Digital and its concert parties in aggregate now beneficially own 251,900,000 Shares, representing approximately 79.21% of the total issued share capital of the Company as at the Latest Practicable Date. Apex Digital is therefore obliged under Rule 26 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares held by the Independent Shareholders. Somerley is making the Offer on behalf of Apex Digital.

There are at present 12,000,000 outstanding Share Options, held as to 4,000,000 outstanding Share Options each by three employees of the Company, namely Mr. Cheng Ze, Mr. Han Tao and Mr. Wang Chao Ming. They have each given an irrevocable undertaking to Apex Digital not to exercise the Share Options before the close of the Offer. Each of them has also undertaken not to require Apex Digital to extend the Offer or make to them any comparable offer arising out of or in relation to the Offer for their holding of the Share Options. Accordingly, Apex Digital will not extend the Offer or make any comparable offer arising out of or in relation to the Offer to those three holders of the Share Options.

This letter sets out the detailed terms of the Offer, together with information on Apex Digital and its intention regarding the Group. Further details of the Offer are also set out in Appendix I to this document and in the accompanying form of acceptance and transfer. Your attention is also drawn to the letter from the Board, the letter from the Independent Board Committee to the Independent Shareholders and the letter from Altus to the Independent Board Committee as contained in this document.

LETTER FROM SOMERLEY

THE OFFER

Somerley is making, on behalf of the Offeror, an unconditional mandatory cash offer to acquire all the issued Shares other than those already owned by the Offeror and the parties acting in concert with it on the terms and subject to the conditions set out in this document and in the form of acceptance and transfer on the following basis:

The Offer

For each Offer Share HK\$1.77 in cash

The Offer Price represents:

- the highest price paid for any Share acquired by Apex Digital or parties acting in concert with it in the past six months period preceding the commencement of the Offer Period;
- a discount of approximately 55.2% to the closing price of HK\$3.95 per Share quoted on the Stock Exchange as at the Last Trading Day;
- a discount of approximately 3.3% to the closing price of HK\$1.83 per Share as at the last business day prior to the commencement date of the Offer Period;
- a discount of approximately 55.4% to the average closing price of approximately HK\$3.97 per Share for the 10 trading days up to and including the Last Trading Day;
- a premium of 33.0 times to the audited net asset value per Share of approximately HK\$0.052 as at 31st December, 2002 based on its last published audited consolidated balance sheet of the Company as at 31st December, 2002 and 318,000,000 Shares in issue as at the Latest Practicable Date;
- a premium of approximately 36.7 times to the pro forma unaudited adjusted consolidated net tangible asset value per Share of approximately HK\$0.047, calculated based on the audited consolidated net tangible assets of the Group as at 31st December, 2002 and as adjusted in the manner set out in the paragraph headed “Statement of pro forma unaudited adjusted consolidated net tangible assets of the Group” in Appendix II to this document; and
- a discount of approximately 49.4% to the closing price of HK\$3.5 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Share Options and irrevocable undertaking from the Option Holders

There are at present 12,000,000 outstanding Share Options, held as to 4,000,000 outstanding Share Options each by three employees of the Company, namely Mr. Cheng Ze, Mr. Han Tao and Mr. Wang Chao Ming, under the employee share option scheme of the Company entitling the holders of

LETTER FROM SOMERLEY

the Share Options to subscribe for, in aggregate, 12,000,000 new Shares, representing approximately 3.64% of the then enlarged total issued share capital of the Company, at an exercise price of HK\$1.775 per Share at any time up to 3rd February, 2007. Under the employee share option scheme of the Company, these 12,000,000 outstanding Share Options are not transferable or assignable.

Messrs Cheng Ze, Han Tao and Wang Chao Ming have each given an irrevocable undertaking to Apex Digital not to exercise the Share Options before the close of the Offer. Each of them has also undertaken not to require Apex Digital to extend the Offer or make to them any comparable offer arising out of or in relation to the Offer in respect of their holding of the Share Options. Accordingly, Apex Digital will not extend the Offer or make any comparable offer arising out of or in relation to the Offer to those three holders of the Share Options.

Save for the outstanding Share Options described above, the Company has no other outstanding equity securities (including equity related convertible securities, warrants, options or subscription rights in respect of any equity share capital) as at the Latest Practicable Date.

Total consideration

As at the Latest Practicable Date, the Company had 318,000,000 Shares in issue, of which 66,100,000 Shares (representing approximately 20.8% of the issued share capital of the Company) were held by the Independent Shareholders to whom the Offer is being made. Based on the Offer Price, the entire issued share capital of the Company is valued at approximately HK\$563 million. The total consideration payable under the Offer is approximately HK\$117 million.

The Offer will be financed as to HK\$16,997,000 by the internal resources of Apex Digital and as to the remaining HK\$100 million by a loan facility extended by Kingston Securities pursuant to the Loan Agreement. The repayment of any amount due under the Loan Agreement will not depend on the business of the Company. Kingston Securities is an independent third party and is not connected with the directors or chief executive or substantial shareholders or management shareholder of Apex Digital or any of their respective associates. Kingston Securities is presumed to be acting in concert with Apex Digital under the Takeovers Code as a result of providing the said loan facility to Apex Digital pursuant to the Loan Agreement. Somerley is satisfied that there are sufficient financial resources available for the Offeror to meet full acceptance of the Offer in respect of the remaining 66,100,000 Shares.

Unconditional Offer

The Offer is unconditional and are not subject to the attainment of any particular level of acceptances in respect of the Offer.

Stamp duty

Stamp duty at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the amount payable in respect of relevant acceptances will be payable by the Shareholders. Apex Digital will pay for such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to Shareholders on acceptance of the Offer.

LETTER FROM SOMERLEY

Compulsory acquisition

The Offeror does not intend to exercise any right which may be available to it under the provisions of Section 102 or 103 of the Companies Act to acquire compulsorily any Shares not acquired under the Offer after the close of the Offer but reserves the right to do so.

Effect of accepting the Offer

By accepting the Offer, Shareholders will sell their Shares free from all liens, claims and encumbrances and with all rights attached, including the right to receive all dividends and distributions declared, made or paid on or after 15th May, 2003, being the date of the Deeds.

Dealings and holdings in the Shares

Prior to entering into the Deeds, Apex Digital acquired 80,000,000 Shares, representing approximately 25.16% of the total issued shares of the Company, on the open market on 17th October, 2002 at the price of HK\$1.77 per Share. After completion of the Deeds, Apex Digital and its concert parties in aggregate now beneficially own 251,900,000 Shares, representing approximately 79.21% of the total issued share capital of the Company. Aside from the acquisition of the aforesaid Shares by Apex Digital and the transfer of the aforesaid Shares by way of gift by Ultra Challenge to Apex Digital and its concert parties pursuant to the Deeds, during the six months period prior to the commencement of the Offer Period and up to the Latest Practicable Date, neither Apex Digital nor any parties acting in concert with it had dealt in the Shares.

INFORMATION ON APEX DIGITAL AND THE OTHER RECIPIENTS

Apex Digital is a company incorporated in California, USA on 27th August, 1997. Apex Digital is principally engaged in the business of importing and wholesaling of consumer home electronics under the brand name "APEX Digital" in the USA and Canada. The product lines of Apex Digital include multi-functional DVD players, televisions and home theatre systems. Apex Digital was founded by Mr. Ji and Mr. Hsu and is beneficially owned as to 65% by Mr. Ji and the remaining 35% by United Delta, which is equally owned by Mr. Ji and Mr. Hsu.

The directors of Apex Digital are Mr. Ji and Mr. Hsu. Set out below are brief details of Mr. Ji, Mr. Hsu and the other Recipients.

Mr. David Ji Long Fen, aged 50, is the co-founder and the president of Apex Digital. He graduated from the Department of Foreign Languages of Fudan University in Shanghai, the PRC and holds a Master of Business Administration degree from Pacific States University in the USA. He has more than 12 years of experience in the consumer electronics industry in the USA, including sourcing and wholesale operations. In December 2002, Mr. Ji was elected by TIME Magazine and CNN from more than 100 nominees of young executives as one of 15 Global Influentials for the year 2002.

Mr. Anle Hsu Ann Keh, aged 41, is the co-founder, the chief operating officer and the vice president of Apex Digital. He has more than 14 years of experience in the consumer electronics industry. In December 2002, Mr. Hsu was elected by TIME Magazine and CNN from more than 100 nominees of young executives as one of 15 Global Influentials for the year 2002.

LETTER FROM SOMERLEY

Mr. Xu Gaohui, aged 23, is responsible for sourcing products and components of consumer electronics from the PRC for Apex Digital. He graduated from Changzhou Industrial College majoring in Foreign Trade English. Mr. Xu has over two years of experience in the consumer electronics industry. Mr. Xu will be nominated by Apex Digital to join the Group as a senior management staff after completion of the Offer.

Mr. Mark Lau, aged 24. He holds a bachelor's degree in business from University of Technology Sydney, Australia. Mr. Lau will be nominated by Apex Digital to join the Group as a senior management staff after completion of the Offer.

Ms. Bu Dongmei, aged 48, is an executive Director and one of the founding staff members of the Group. She is responsible for the general management and operation of the Group. Ms. Bu has over 15 years of experience in research and marketing. She joined the Group in June 2000.

Mr. Wang Guang Xin, aged 45, is an executive Director. He is responsible for the production and general administration of the Group. Mr. Wang has also been the compliance officer of the Company for the purpose of the GEM Listing Rules since April 2002. He joined the Group in June 2001. He is the brother in law of Professor Kou.

Ms. Kou Yue, aged 29, is an accountant of the Group. She holds a bachelor's degree in Economics from Tianjin Finance College, the PRC. Ms. Kou is also a fellow member of the Chinese Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. She has over six years of experience in auditing and accounting. Prior to joining the Group in December 2002, she had worked for an international accounting firm. She is a daughter of Professor Kou.

INTENTION OF THE OFFEROR REGARDING THE GROUP

It is the intention of Apex Digital that the existing principal activities of the Group will remain unchanged, and the incoming directors believe that their extensive experience in the consumer home electronics industry can add value to the Group's DVD business which accounted for approximately 97.4% of the Group's turnover for the year ended 31st December, 2002 and can help to explore further business opportunities in the DVD players and other related consumer electronic products. During the two years ended 31st December, 2002, the Company has no business relationship with Apex Digital.

Following the close of the Offer, Apex Digital intends to continue the existing businesses of the Group and has no intention to re-deploy the fixed assets or to make any material changes to the existing management and employees of the Group, other than the Board. Further, Apex Digital has no intention to inject any assets or businesses into the Group within one year after completion of the Offer. Notwithstanding the foregoing, Apex Digital intends to review the business operations of the Group following closing of the Offer and to implement any appropriate measures to rationalise such business operations where it is in the interests of the Group to do so.

LETTER FROM SOMERLEY

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing application as set out in the GEM Listing Rules.

MAINTAINING THE LISTING STATUS OF THE COMPANY

Apex Digital intends that the Company will remain listed on the Stock Exchange after completion of the Deeds and the close of the Offer. Under Rule 11.23(1) of the GEM Listing Rules, the Company, having listed its shares on GEM before 1st October, 2001, is required to maintain not less than 20% of its issued share capital in public hands. Apex Digital and the new directors to be nominated by Apex Digital to the Board are aware that if all Shareholders (other than Apex Digital and parties acting in concert with it) tender their Shares under the Offer, the Company's public float will fall below 20% immediately after completion of the Offer. Accordingly, Apex Digital and the proposed new Directors have undertaken to the Stock Exchange to take appropriate steps to ensure compliance with rule 11.23(1) of the GEM Listing Rules, which may include:

- (a) arranging for a sale of existing Shares by Apex Digital and the management Shareholders (who are not regarded as members of the public for the purposes of the GEM Listing Rules) after completion of the Offer to persons who are independent of the chief executive, any Directors (and any person intended to be appointed as a Director), management shareholders and substantial shareholders of the Company and their respective associates; and/or
- (b) such other steps as may be appropriate to restore the minimum percentage of securities of the Company held in public hands in accordance with the GEM Listing Rules.

The Stock Exchange has stated that, if less than 20% of the issued Shares are in public hands following completion of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

LETTER FROM SOMERLEY

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

Upon closing of the Offer, Professor Kou and Ms. Bu, existing executive Directors, will remain on the Board. Mr. Wang and Professor Li Min Qiang, existing executive Directors, and Mr. Li Shan Hai and Mr. Wang Fu Sun, the existing independent non-executive Directors, will resign or have expressed their intention to resign after the closing of the Offer. Upon such resignations, new independent non-executive Directors will be nominated to the Board in compliance with the requirements of Rule 5.05 of the GEM Listing Rules.

Apex Digital intends to nominate its two directors, namely Mr. Ji and Mr. Hsu, and the following persons as executive Directors to the Board and it is expected that such appointments will take effect upon closing of the Offer.

Ms. Alice Hsu Chu Yun, aged 40, is the vice president and financial controller of Apex Digital. She holds a Bachelor of Science degree in computer information system from California State University in the USA and an Associate of Arts degree in accounting and statistics from Shih Chie University in Taipei, Taiwan. She has over 20 years of experience in accounting and financial management.

Mr. Stuart Blake, aged 46, is the vice president and general counsel of Apex Digital. He holds a Bachelor of Science degree from Lehigh University in the USA and a Juris doctor's degree from Nova Southeastern University School of Law in the USA. Mr. Blake has over 20 years of corporate legal experience.

The above nominated persons as the new executive Directors do not have expertise in the existing data broadcasting business of the Group, but they do have extensive experience in the importing and wholesaling of consumer home electronics such as DVD players, televisions and home theatre systems or otherwise corporate legal experience. They will be responsible for the overall management of the Group. However, Professor Kou and Ms. Bu, the executive Directors who shall remain at the Board, will provide continuity of the management and expertise to the data broadcasting business of the Group.

Apart from the above, Apex Digital may, at the appropriate time, nominate additional new Directors to the Board. Further announcement(s) will be made upon such appointment. The Directors and Apex Digital believe that the aforesaid proposed change in the Board composition will not have any adverse impact on the Group.

LETTER FROM SOMERLEY

ACCEPTANCE AND SETTLEMENT

Procedures for acceptance

The Offer

To accept the Offer, you should complete the accompanying form of acceptance and transfer in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer.

The completed form of acceptance and transfer should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept under the Offer, by post or by hand, to the Registrar, Hong Kong Registrars Limited, Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong in an envelope marked "China Data Offer" as soon as possible but in any event not later than 4:00 p.m. on 30th June, 2003 or such later date as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance and transfer, Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is drawn to the further terms of the Offer set out in Appendix I to this document and in the accompanying form of acceptance and transfer. Independent Shareholders with registered addresses outside Hong Kong please also pay attention to the section headed "General" in Appendix I to this document.

Settlement

The Offer

Provided that the relevant form of acceptance and transfer and Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar on or before 4:00 p.m. on 30th June, 2003, a cheque for the amount due to each of the accepting Independent Shareholders in respect of the Shares tendered by them under the Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the Independent Shareholders by ordinary post at their own risk within 10 days following the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

Nominee registration

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

LETTER FROM SOMERLEY

All documents and remittances will be sent to the Independent Shareholders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members, or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the relevant forms of acceptance and transfer completed and returned by the Independent Shareholders. None of the Company, the Offeror, the parties acting in concert with the Offeror, Somerley and the Registrar or any of their respective directors will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

TAXATION

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer. It is emphasised that none of the Offeror, the parties acting in concert with the Offeror, Somerley and any of their respective directors accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offer.

GENERAL

The Independent Shareholders are advised to read carefully the letter from the Independent Board Committee and the letter from the Independent Financial Adviser as contained in this document before deciding whether or not to accept the Offer.

Your attention is also drawn to the further terms of the Offer and the additional information set out in the appendices to this document.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Managing Director



CHINA DATA BROADCASTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

9th June, 2003

To the Independent Shareholders

Dear Sir or Madam,

**UNCONDITIONAL CASH OFFER BY
SOMERLEY LIMITED ON BEHALF OF APEX DIGITAL, INC.
TO ACQUIRE ALL THE ISSUED SHARES OF
CHINA DATA BROADCASTING HOLDINGS LIMITED
(other than those already owned by Apex Digital, Inc. and
parties acting in concert with it)**

We refer to the document dated 9th June, 2003 issued by the Company (the “Document”) of which this letter forms part. Terms defined in the Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the Offer. Altus has been appointed as the independent financial adviser to advise us on the Offer.

Your attention is drawn to the letter from the Board and the letter of advice from Altus containing its advice to us as set out in the Document, and to the letter from Somerley set out in this Document containing, among other things, the terms of the Offer.

RECOMMENDATION

Taking into account the terms of the Offer and the advice from Altus, we consider that the terms of the Offer are fair and reasonable in so far as the Independent Shareholders are concerned and recommend the Independent Shareholders to accept the Offer if they no longer wish to retain part or all of their investments in the Shares. Independent Shareholders who wish to realise part or all of their holdings should monitor the movement of the prices of the Shares carefully before the close of the Offer and should consider selling their Shares in the market if the net proceeds of such sale will be higher in the market than the net amount receivable under the Offer.

Yours faithfully,
Li Shan Hai **Wang Fu Sun**
Independent Board Committee

LETTER FROM ALTUS

The following is the text of the letter of advice to the Independent Board Committee from Altus dated 9th June, 2003 prepared for incorporation in this Document.

ALTUS CAPITAL LIMITED

8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

Tel : (852) 2522 6122
Fax: (852) 2522 6992

*To the Independent Board Committee of
China Data Broadcasting Holdings Limited*

9th June, 2003

Dear Sirs,

UNCONDITIONAL MANDATORY CASH OFFER

INTRODUCTION

We refer to the document to the Independent Shareholders dated 9th June, 2003 (the “Document”) issued by the Company of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in respect of the Offer, the details of which are set out in the “Letter from the Board” contained in the Document. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Document unless the context otherwise requires.

In assessing the eligibility of the Directors to be a member of the Independent Board Committee, we have considered and taken into account the confirmations by each of the Directors to the SFC in respect of their interests in the Company and have noted the following:

- 1) Professor Kou is an executive Director and a salaried employee of the Company. He was the settlor of the Ultra Challenge Trust and one of the UC Trustees. Following completion of the Deeds, all shareholders of Ultra Challenge (other than Mr. Sun Lianwen) transferred their interests in Ultra Challenge to him;
- 2) Ms. Bu is an executive Director and a salaried employee of the Company. She is one of the Recipients. Further, she was a beneficiary of the Ultra Challenge Trust and a shareholder of Ultra Challenge;
- 3) Professor Li Min Qiang is an executive Director and a salaried employee of the Company. He was a beneficiary of the Ultra Challenge Trust and a shareholder of Ultra Challenge; and
- 4) Mr. Wang is an executive Director and a salaried employee of the Company. He is one of the Recipients. Further, he was a beneficiary of the Ultra Challenge Trust and a shareholder of Ultra Challenge.

LETTER FROM ALTUS

Based on the foregoing, the above Directors are not considered independent to make any advice or recommendation to the Independent Shareholders in relation to the Offer. The Independent Board Committee comprising Mr. Li Shan Hai and Mr. Wang Fu Sun has been appointed to give advice to the Independent Shareholders and, meanwhile, we are appointed as the independent financial adviser to advise the Independent Board Committee as to whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and the Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Document were true and accurate and complete at the time they were made and continue to be true at the date of the Document, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the “Letter from the Board” contained in the Document were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Document. We have also discussed with the management of the Group their plans for the Group and the prospects of the businesses of the Group.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Offer and to justify reliance on the accuracy of the information contained in the Document so as to provide a reasonable basis for our opinions. We have no reason to suspect that any material facts or information (which is known to the Company) have been omitted or withheld from the information supplied or opinions expressed in the Document nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification of the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Group.

We have not considered the tax consequences for the Independent Shareholders of accepting the Offer or any other aspect of the position of such Independent Shareholders with regard to taxation arising from the acceptance of the Offer since this will depend on the Independent Shareholder’s individual circumstances. Independent Shareholders who are overseas residents or are subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own taxation position and, if they are in any doubt, they should consult their own professional advisers.

PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation in respect of the terms of the Offer, we have considered the following principal factors:

1. The Offer

On 20th May, 2003, the Company and Apex Digital jointly announced that, among other things, Ultra Challenge, on 15th May, 2003, separately entered into seven deeds of gift with Apex

LETTER FROM ALTUS

Digital, Mr. Ji, Mr. Xu, Mr. Lau, Ms. Kou, Ms. Bu and Mr. Wang. Pursuant to the Deeds, Ultra Challenge transferred to the Recipients by way of absolute gifts, the legal and beneficial interests in 171,900,000 Shares in aggregate, representing approximately 54.05% of the total issued share capital of the Company.

After completion of the Deeds, Apex Digital and its concert parties in aggregate beneficially own 251,900,000 Shares, representing approximately 79.21% of the total issued share capital of the Company. Accordingly, Apex Digital and parties acting in concert with it are obliged under Rule 26 of the Code to make an unconditional mandatory cash offer for all the issued Shares other than those already held or agreed to be acquired by Apex Digital and parties acting in concert with it.

The Offer is made to Independent Shareholders on the following basis:

For each Offer Share HK\$1.77 in cash

On the basis of the Offer Price of HK\$1.77 per Offer Share and the 318,000,000 Shares in issue as at the Latest Practicable Date, the Offer values the entire existing issued share capital of the Company at approximately HK\$562.86 million.

The Offer Price is equivalent to the highest price paid for any Shares acquired by Apex Digital or parties acting in concert with it in the six months period immediately preceding the commencement of the Offer Period.

2. Financial performance of the Group

The Group is principally engaged in (i) the manufacture and sale of data broadcasting hardware and software; (ii) the provision of data broadcasting and related services; and (iii) acting as technical consultant and sourcing agent for parts and components of DVD players in the PRC.

A summary of the audited consolidated results of the Group for the three years ended 31st December, 2002 and the audited consolidated financial statements of the Group for the two years ended 31st December, 2002 are set out in Appendix II to the Document.

During the three financial years ended 31st December, 2002, the turnover of the Group fluctuated. The turnover of the Group decreased from approximately HK\$25.3 million for the year ended 31st December, 2000 to approximately HK\$6.0 million for the year ended 31st December, 2001, representing a reduction of approximately 76.3%. Although the Company currently broadcasts various contents through its data broadcasting services, the Directors confirmed that broadcasting of real-time stock quotation of the PRC stock market remained as one of the core services. According to the annual report of the Group for the year 2001, the decrease in turnover was due to the drop in sales of the hardware and software for data broadcasting resulting from the weak demand in the PRC market as well as the entry of new competitors. In addition, counterfeit PC plug-in boards which were sold under the Company's brand name also undermined the Group's sales during that period, although such activity was

terminated shortly after it had been discovered. The turnover of the Group increased to approximately HK\$111.6 million for the year ended 31st December, 2002, representing an increase of approximately 1,760% as compared to the previous financial year. According to the annual report of the Group for the year 2002, the increase in turnover for the year ended 31st December, 2002 was mainly attributable to sales made and the fees received by the Group from acting as a technical consultant and sourcing agent for parts and components of DVD players for a connected party, Tianjin Tianda Tiancai Co., Ltd., which was approved by the then independent shareholders of the Company at the special general meeting held on 31st May, 2002. Turnover generated from the above business, which commenced since 31st May, 2002, accounted for approximately 97.4% of the Group's total turnover for the year ended 31st December, 2002, whilst the other businesses of the Group, namely sale of data broadcasting hardware and software and provision of data broadcasting and related services, accounted for the remaining 2.6% of the Group's total turnover during the same period. Notwithstanding the significant growth in turnover, the Group recorded consolidated net losses attributable to Shareholders of approximately HK\$6.0 million, HK\$11.3 million and HK\$4.0 million respectively for the three years ended 31st December, 2002.

For the three months ended 31st March, 2003, the Group's unaudited turnover was approximately HK\$323,000, representing a reduction of approximately 30.0% as compared to the corresponding period last year. According to the first quarterly report 2003 of the Company, the decrease in turnover for the three months ended 31st March, 2003 was due to the expiration of the initial terms of the provision of services as a technical consultant and sourcing agent as mentioned above on 31st December, 2002 and the Group did not provide the above services during the period. The Group recorded unaudited consolidated net losses attributable to Shareholders of approximately HK\$1.6 million for the three months ended 31st March, 2003.

3. Net tangible asset value

As set out in Appendix II to the Document, the Group had audited consolidated net tangible assets of approximately HK\$16.5 million or approximately HK\$0.052 per Share as at 31st December, 2002 and pro forma unaudited adjusted consolidated net tangible assets of approximately HK\$14.8 million or approximately HK\$0.047 per Share. The Offer Price represents a premium of approximately 3,303.8% to the audited consolidated net asset value per Share of approximately HK\$0.052 as at 31st December, 2002 and a premium of approximately 3,666.0% to the pro forma unaudited adjusted consolidated net tangible asset value per Share of approximately HK\$0.047. Although, after completion of the Deeds, Apex Digital received 38,250,000 Shares, representing about 12.02% of the issued share capital of the Company, from Ultra Challenge at nil consideration, the Offer Price of HK\$1.77 is not less than the highest price paid by Apex Digital for the Shares held by it during the six months period immediately preceding the commencement of the Offer Period.

Whilst no listed comparable company can be identified on GEM which is engaged in similar businesses as those of the Group, in order to assess the reasonableness of the Offer Price to the Group's net tangible asset value, we have analysed, to the best of our knowledge, the comparisons of offer prices to net tangible asset values for the cash offers (excluding cases of

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privatization) in companies listed on GEM based on documents despatched by the offeree companies since 1st November, 2002. Our analysis is set out below:

Name of company	Shareholding of each respective offeror immediately prior to the making of the general offer to the company (%)	Offer price per share (HK\$)	Pro forma consolidated net tangible assets per share ^{1/} (HK\$)	Premium/ (discount) of the offer price over/(to) consolidated net tangible asset per share (%)
Systek Information Technology Hold. Ltd.	51.08	0.0138	0.0179	(22.9)
Recruit Holdings Limited	64.51	0.0165	0.0185	(10.8)
Sing Pao Media Group Limited	55.09	0.36	0.184	95.7
The Company	79.21	1.77	0.047	3,666.0

Note:

1/ Pro forma consolidated net tangible assets per share figures were obtained with references to the figures as disclosed in the circular for each respective offer.

As set out in the table above, we note that the significant premium implied by the Offer Price to the pro forma unaudited adjusted consolidated net tangible assets per Share of approximately 3,666.0% is the highest among all the cases.

4. Price/earnings multiples and dividend yields

One of the most commonly used references for valuing an entity is the price/earnings multiple. Given that the Group is engaged principally in the business of data broadcasting in the PRC and the provision of services as a technical consultant and sourcing agent for parts and components of DVD players, we have considered applying the price/earnings multiples to assess the value of the Shares. However, since the Company recorded audited consolidated net losses for the three years ended 31st December, 2002 and we have not been provided with a profit forecast, a meaningful price/earnings multiple is not available for assessing the value of the Group.

We have also reviewed the dividend payment history of the Company and noted that for the past three years ended 31st December, 2002, the Company has not paid or declared any dividends to the Shareholders. Accordingly, no basis can be formed to appraise the fairness and reasonableness of the Offer Price based on the historic dividend yield of the Company.

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Thus, taking into account the above, and based solely on the Group's current financial position, we are of the view that the Offer Price is fair and reasonable.

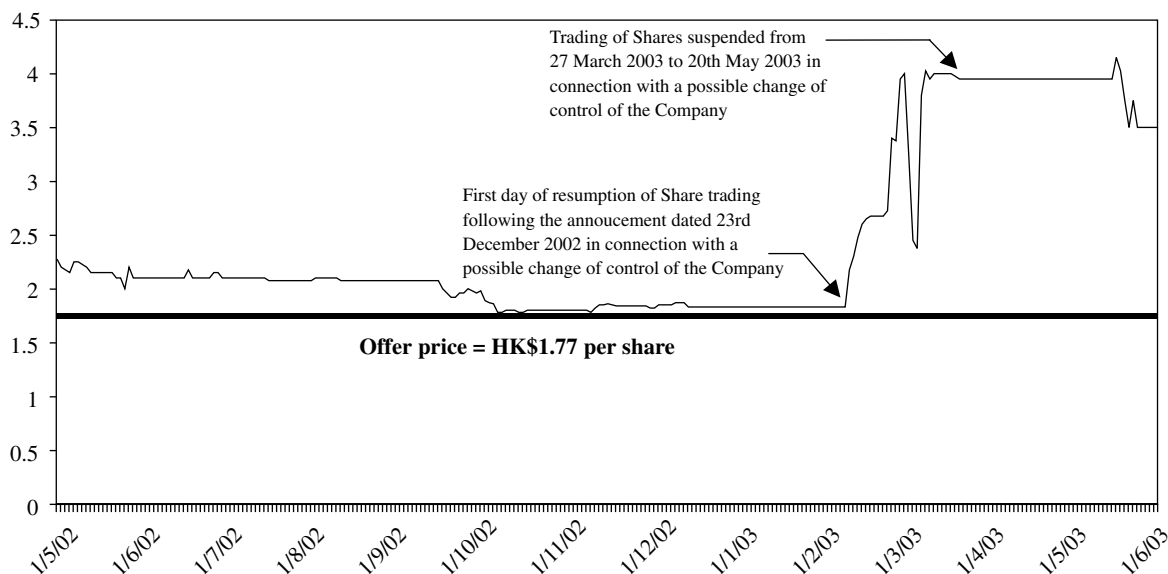
5. Historical Share price performance and trading liquidity

(a) Share price performance

The Offer Price represents:

- (i) the highest price paid for any Share acquired by Apex Digital or parties acting in concert with it in the six months period preceding the commencement of the Offer Period;
- (ii) a discount of approximately 55.2% to the closing price of HK\$3.95 per Share quoted on the Stock Exchange as at the Last Trading Day;
- (iii) a discount of approximately 55.4% to the average closing price of approximately HK\$3.97 per Share for the 10 trading days up to and including the Last Trading Day; and
- (iv) a discount of approximately 49.4% to the closing price of HK\$3.5 per Share quoted on the Stock Exchange as at the Latest Practicable Date.

A chart illustrating the Share price from 1st May, 2002, being the date twelve months preceding the date of the Announcement and up to and including the Latest Practicable Date (the "Relevant Period"), is set out as follows:



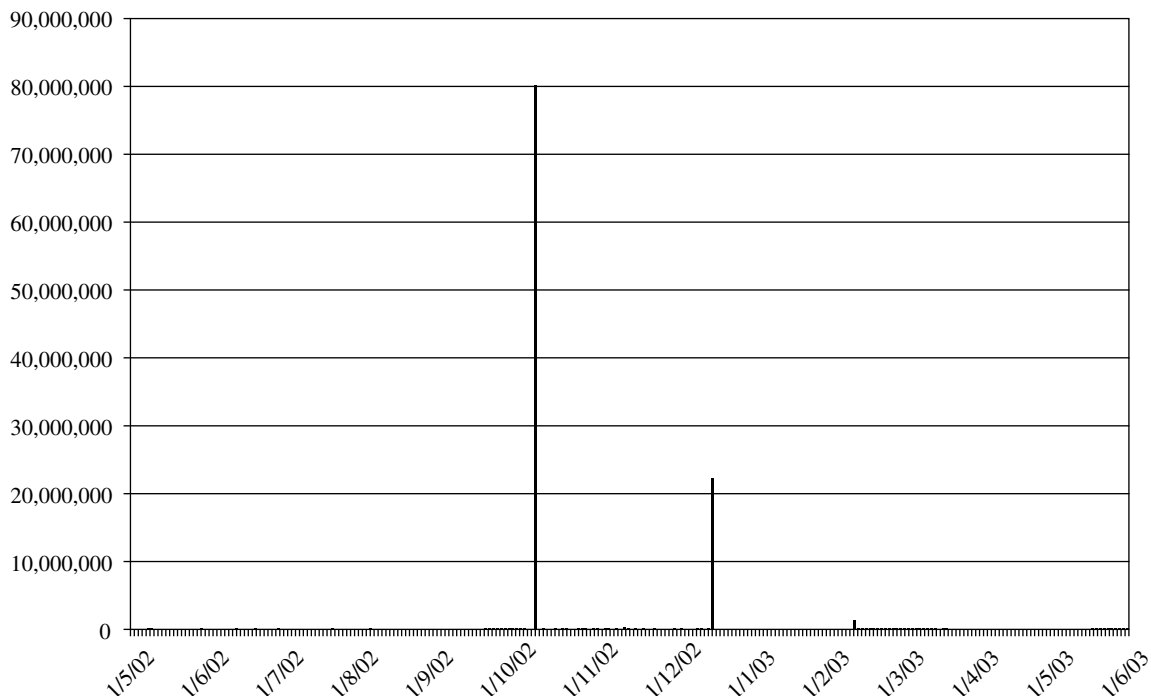
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From the chart above, between 1st May, 2002 and 20th May, 2003, being the twelve-month period prior to the Announcement, the Shares traded at closing prices between HK\$1.78 and HK\$4.025 per Share. After the Announcement and resumption of trading and up to the Latest Practicable Date, the Shares traded at closing prices between HK\$3.5 and HK\$4.15 per Share.

We note that on 20th December, 2002, being the last trading day immediately before the suspension of trading owing to the announcement dated 23rd December, 2002 in connection with a possible change of control, the closing Share price was HK\$1.83. However, since 18th February, 2003, the first day after the resumption of Share trading following the release of the announcement dated 23rd December, 2002, there was a significant surge in Share price. The trading prices of Shares have since then and up to the Latest Practicable Date increased and traded at closing prices of between HK\$2.175 and HK\$4.15 per Share. We are not aware of any reasons for such surge in Share prices other than the possible speculation on the change in the control of the Company.

(b) *Trading volume*

A chart illustrating the Share trading volume during the Relevant Period is as follows:



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The following table sets out the total number of Shares traded per month and the respective percentage of monthly trading volume based on the issued share capital and the public float for the Relevant Period.

Month	Number of Shares traded per month	Shares traded as a percentage of the issued share capital of the Company ^{1/}	Shares traded as a percentage of Shares held by public ^{2/}
2002			
May	752,000	0.236%	1.138%
June	112,000	0.035%	0.169%
July	16,000	0.005%	0.024%
August	6,000	0.002%	0.009%
September	50,000	0.016%	0.076%
October	80,740,000	25.390%	122.148%
November	292,000	0.092%	0.442%
December ^{3/}	22,394,510	7.042%	33.880%
2003			
January ^{3/}	—	0.000%	0.000%
February ^{3/}	1,468,000	0.462%	2.221%
March	618,000	0.194%	0.935%
April ^{4/}	—	0.000%	0.000%
May	222,000	0.070%	0.336%
June ^{5/}	—	0.00%	0.00%

Notes:

1/ based on 318,000,000 Shares in issue as at the Latest Practicable Date

2/ based on 66,100,000 Shares held in public hands before completion of Deeds

3/ trading of Shares suspended from 23rd December, 2002 to 18th February, 2003

4/ trading of Shares suspended from 27th March, 2003 to 20th May, 2003

5/ up to Latest Practicable Date

From the table above, except for October 2002 and December 2002, the trading volume had been thin during the Relevant Period. Save for the month of January and April during which trading of Shares was suspended, monthly trading volume ranged between 25.390% and 0.002% of the total issued share capital; and between 122.148% and 0.009% of the public float of the Company. We wish to highlight that the substantial increase in

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Share trading in October 2002 was attributed to the acquisition of 80,000,000 Shares by Apex Digital whilst we are not aware of any reasons for the increase in Share trading in December 2002 other than the possible speculation on the change in the control of the Company.

Having reviewed the overall price trend of the Shares and the trading volume of the Shares both before and after the Announcement, we wish to highlight to the Independent Shareholders that due to the low trading volume, disposing of the Shares in the open market may be difficult, even though the price of Shares has traded significantly above the Offer Price of HK\$1.77 since 23rd December, 2002.

Independent Shareholders should also note that as stated in the Company's announcement dated 13th May, 2003, as at 6th March, 2003, an aggregate of 63,330,000 Shares which represented approximately 19.9% of the issued share capital of the Company and approximately 95.8% of the Shares held in public hands before completion of the Deeds respectively, were held by 6 public Shareholders. Any disposal of the Shares by the above six Shareholders may have adverse effect on the price of the Shares.

Independent Shareholders should also note that following the completion of the Deeds, Apex Digital and its concert parties hold in aggregate approximately 79.21% of the issued share capital of the Company and the public float of Shares represents only 20.79% of the issued share capital of the Company. Given the small public float and the historical low trading volume as indicated above, the trading in Shares may be illiquid. Should the Independent Shareholders decide to sell the Shares in the market, there may be downward pressure on the Share price.

6. Intention of Apex Digital Regarding the Group

As stated in the "Letter from Somerley" contained in the Document, it is the intention of Apex Digital that the existing principal activities of the Group will remain unchanged, and the incoming directors believe that their extensive experience in the consumer home electronics industry can add value to the Group's DVD business which accounted for approximately 97.4% of the Group's turnover for the year ended 31st December, 2002 and can help to explore further business opportunities in DVD players and other related consumer electronic products. During the two years ended 31st December, 2002, the Company had no business relationship with Apex Digital. Having considered that Apex Digital is engaged in the business of importing and wholesaling of consumer electronics, in particular, in the sale of DVD players, and that the Group's DVD business is expected to continue to contribute significantly to the Group's revenue source, we are of the view that Apex Digital will add value to the Group's business.

Following the close of the Offer, Apex Digital intends to continue the existing businesses of the Group and has no intention to re-deploy the fixed assets or to make any material changes to the existing management and employees of the Group, other than the Board. Further, Apex Digital has no intention to inject any assets or businesses into the Group within one year after completion of the Offer. Notwithstanding the foregoing, Apex Digital intends to review the business operations of the Group following closing of the Offer and to implement any appropriate measures to rationalise such business operations where it is in the interests of the Group to do so.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by the Company. The Stock Exchange has indicated that it has the discretion to require the Company to issue a circular to Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power to aggregate a series of transactions of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing application as set out in the GEM Listing Rules.

On this basis, before deciding on whether to accept the Offer, Independent Shareholders are advised to assess their investment objectives and review their investment strategies, taking into consideration that (i) Apex Digital has no intention to inject any assets or businesses into the Group within one year after completion of the Offer; (ii) Apex Digital has no experience in the data broadcasting industry despite the fact that Apex Digital may add value to the Group's DVD business which accounted for majority of the Group's revenue for the year ended 31st December, 2002; and (iii) there will be a change in the Board, and Mr. Wang as well as Professor Li Min Qiang, who are existing executive Directors, will resign as Directors upon the close of the Offer and Mr. Li Shan Hai and Mr. Wang Fu Sun, who are existing independent non-executive Directors, have expressed their intention to resign upon the close of the Offer. In addition, Apex Digital will nominate four new Directors to the Board.

Notwithstanding the above, on the basis that DVD business is expected to continue to contribute significantly to the Group's revenue source, we are of the view that the experience of Apex Digital in the DVD related business will add value to the Group.

7. Maintaining the listing of the Shares

Apex Digital intends that the Company will remain listed on the Stock Exchange after completion of the Deeds and the close of the offer. Under Rule 11.23(1) of the GEM Listing Rules, the Company, having listed its shares on GEM before 1st October 2001, is required to maintain a public float of not less than 20% of its issued share capital. Failure to do so may result in the Stock Exchange suspending trading in the Shares.

Upon completion of the Deeds, Apex Digital and parties acting in concert with it in aggregate beneficially owned 251,900,000 Shares, representing approximately 79.21% of the

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issued share capital of the Company. This shareholding interest may further increase after the Offer as a result of valid acceptances received under the Offer. Accordingly, Apex Digital and the proposed new Directors have undertaken to the Stock Exchange to take appropriate steps to ensure compliance with rule 11.23(1) of the GEM Listing Rules, which may include:

- (a) arranging for a sale of existing Shares by Apex Digital and the management Shareholders (who are not regarded as members of the public for the purposes of the GEM Listing Rules) after completion of the Offer to persons who are independent of the chief executive, any directors (and any person intended to be appointed as a Director), management shareholders and substantial shareholders of the Company and their respective associates; and/or
- (b) such other steps as may be appropriate to restore the minimum percentage of securities of the Company held in public hands in accordance with the GEM Listing Rules.

The Stock Exchange has stated that, if less than 20% of the issued Shares are in public hands following completion of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float of the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained.

Independent Shareholders should note that upon the closing of the Offer, if less than 20% of the Shares are held by the public, the Offeror may be required to place down the Shares to maintain a sufficient number of Shares in public hands, and this may impose adverse effect on the price of the Shares.

RECOMMENDATION

Having considered the above factors, in particular that:

- the Offer Price represents a premium of approximately 3,666.0% to the pro forma unaudited consolidated net tangible asset value per Share of approximately HK\$0.047, calculated based on the audited consolidated net tangible assets of the Group as at 31st December, 2002 and as adjusted in the manner set out in the paragraph headed “Statement of pro forma unaudited adjusted consolidated net tangible assets of the Group” in Appendix II to this document;
- the Company has been making losses for the three consecutive financial years ended 31st December, 2002;
- the Company did not declare any dividend to the Shareholders for the three consecutive financial years ended 31st December, 2002;

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- thin trading volume of the Shares (as shown in the period from May 2002 and up to May 2003) may make it difficult for the Independent Shareholders to dispose of their Shares in the open market after the close of the Offer; and
- notwithstanding that the Offer Price represents a discount of 55.2% to the closing price of HK\$3.95 per Share as at the Last Trading Day and 55.4% to the average closing price of approximately HK\$3.97 per Share for the 10 trading days up to and including the Last Trading Day, such prices may not be sustainable given the thin trading volume and the possible need to place down Shares to maintain sufficient public float,

we are of the view that the Offer, including the Offer Price, is fair and reasonable so far as the Independent Shareholders are concerned.

However, for those Independent Shareholders who wish to retain part or all of their investments in the Shares, they should carefully consider the future intentions of Apex Digital regarding the Group and evaluate the prospects of the Group under the new management after the close of the Offer, details of which are set out in the “Letter from Somerley” contained in the Document.

Since the trading price of the Shares was higher than the Offer Price, we would like to advise those Independent Shareholders who, having regard to their own circumstances, wish to realise all or some of their Shares in the open market to closely monitor the market price and the liquidity of the Shares in the market during the Offer Period and consider selling their Shares in the market during the Offer Period, rather than accepting the Offer, if the net proceeds of such sale could exceed the amount receivable under the Offer.

Independent Shareholders should read carefully the procedures for accepting the Offer as detailed in Appendix I to the Document and are strongly advised that the decision to realise or to hold their investment in the Shares is subject to individual circumstances and investment objectives.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip **Kevin Chan**
Executive Director *Executive Director*

FURTHER PROCEDURES FOR ACCEPTANCE

- (a) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer, you must:
- (i) lodge your Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar; or
 - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on 27th June, 2003 which is one business day before the latest date on which acceptances of the Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on processing of your instructions and submit your instructions to your broker/custodian bank as required by them; or
 - (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instructions via the CCASS Phone System or CCASS Internet System not later than one business day before the latest date on which acceptances of the Offer must be received by the Registrar, which is 27th June, 2003 in this case.
- (b) If the certificate(s) and/or transfer receipts and/or other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer, the form of acceptance and transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.

- (c) If you have lodged (a) transfer(s) of any of your Shares for registration in your name and have not yet received your certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the relevant form(s) of acceptance and transfer and deliver it/them to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Somerley and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the form of acceptance and transfer.
- (d) Acceptance(s) of the Offer may, at the discretion of the Offeror, be treated as valid even if not accompanied by the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, but, in such cases, the cheque(s) for the consideration due will not be despatched until the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar or the company secretary of the Company, as the case may be.
- (e) No acknowledgment of receipt of any form(s) of acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title will be given.
- (f) The address of the Registrar is Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

ACCEPTANCE PERIOD

Although the Offeror does not intend to revise or extend the Offer, it reserves the right to do so. Unless the Offer is extended, the Offer will expire at 4:00 p.m. on Monday, 30th June, 2003.

ANNOUNCEMENTS

- (a) By 6:00 p.m. on the day of the close of Offer (or such later time and/or date as the Executive agrees), the Offeror shall inform the Executive and the Stock Exchange that the Offer has been closed or extended. By 7:00 p.m., the Offeror should publish a teletext announcement through the Stock Exchange stating whether the Offer has been closed or extended. An announcement to that effect shall be published on the next business day. Such announcement will specify the total number of Shares and the percentage of share capital in the Company, as nearly as practicable, which the Offeror and parties acting in concert with it (as defined under the Takeovers Code) directly or indirectly own or control, including the number of Shares for which valid acceptances of the Offer have been received, and the percentages of voting rights represented by these numbers, and the number of Shares otherwise acquired by the Offeror and any persons acting in concert with it during the Offer Period.
- (b) In computing the number of Offer Shares represented by acceptances, there may be included or excluded for announcement purposes acceptances which are not in all respects in order or that are subject to verification.

- (c) As required under the Takeovers Code and the GEM Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper being in each case a newspaper which is published daily and circulated generally in Hong Kong.

RIGHT OF WITHDRAWAL

As the Offer is unconditional, acceptances by the Shareholders under the Offer shall be irrevocable and cannot be withdrawn.

GENERAL

- (a) All communications, notices, forms of acceptance and transfer, Share certificates, transfer receipts, other documents of title and remittances to be delivered by or sent to or from Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Company, the Offeror, Somerley nor the Registrar accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the accompanying form(s) of acceptance and transfer form part of the Offer.
- (c) The accidental omission to despatch this document and/or the form(s) of acceptance and transfer or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (d) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (e) Due execution of the form of acceptance and transfer will constitute an authority to any directors of the Offeror or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares in respect of which such person has accepted the Offer.
- (f) Acceptance of the Offer by any person or persons will be deemed to constitute a warranty by such person or persons to the Offeror that the Shares acquired under the Offer are sold by any such person or persons free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the Shares after 15th May, 2003, being the date of the Deeds.

- (g) Seller's ad valorem stamp duty arising in connection with acceptance of the Offer, amounting to HK\$1.00 for every HK\$1,000 (or part thereof) of the consideration payable in respect of any acceptance and transfer, will be payable by Shareholders accepting the Offer. The Offeror will pay such amount of stamp duty on behalf of the Shareholders and such amount will be deducted from the amount due to such accepting Shareholders under the Offer.
- (h) The Offeror does not intend to exercise any right which may be available to it under the provisions of Section 102 or 103 of the Companies Act to compulsorily acquire any Shares not acquired under the Offer after the Offer has closed but reserves the right to do so.
- (i) References to the Offer in this document and in the form(s) of acceptance and transfer shall include any extension and revision thereof.
- (j) The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements. It is the responsibility of any such person who wishes to accept the Offer to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction.
- (k) The English text of this document and of the forms of acceptance and transfer shall prevail over the Chinese text for the purpose of interpretation.

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for the last three financial years ended 31st December, 2002.

RESULTS

	Year ended 31st December		
	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	111,566	6,036	25,259
Cost of sales	<u>(111,018)</u>	<u>(7,133)</u>	<u>(24,409)</u>
Gross profit/(loss)	548	(1,097)	850
Other revenue	278	798	1,333
Selling and distribution costs	(366)	(769)	(756)
Administrative expenses	(5,245)	(4,772)	(6,667)
Other operating income/(expenses)	<u>136</u>	<u>(8,796)</u>	<u>(1,953)</u>
OPERATING LOSS BEFORE TAX	(4,649)	(14,636)	(7,193)
Tax	<u>—</u>	<u>—</u>	<u>—</u>
LOSS BEFORE MINORITY INTERESTS	(4,649)	(14,636)	(7,193)
Minority interests	<u>643</u>	<u>3,350</u>	<u>1,199</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	<u>(4,006)</u>	<u>(11,286)</u>	<u>(5,994)</u>

ASSETS, LIABILITIES AND MINORITY INTERESTS

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

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2002

Set out below is the audited financial statements of the Group for the year ended 31st December, 2002 as extracted from pages 27 to 56 of the annual report 2002 of the Company. References to page numbers are to page numbers of such annual report of the Company for the year ended 31st December, 2002.

A. Consolidated Income Statement

For the year ended 31st December, 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
TURNOVER	5	111,566	6,036
Cost of sales		<u>(111,018)</u>	<u>(7,133)</u>
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)		<u>136</u>	<u>(8,796)</u>
OPERATING LOSS BEFORE TAX	6	(4,649)	(14,636)
Tax	9	<u>—</u>	<u>—</u>
LOSS BEFORE MINORITY INTERESTS		(4,649)	(14,636)
Minority interests		<u>643</u>	<u>3,350</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>(4,006)</u>	<u>(11,286)</u>
LOSS PER SHARE	11		
Basic		<u>(1.26) cents</u>	<u>(3.55) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

B. Consolidated Balance Sheet

At 31st December, 2002

	<i>Notes</i>	2002	2001
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	12	294	481
Intangible assets	13	<u>138</u>	<u>248</u>
		<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	<u>26,366</u>	<u>28,459</u>
		<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	<u>147</u>	<u>232</u>
		<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		<u>5,599</u>	<u>6,242</u>
		<u>16,597</u>	<u>20,603</u>
CAPITAL AND RESERVES			
Issued capital	20	7,950	7,950
Reserves	22	<u>8,647</u>	<u>12,653</u>
		<u>16,597</u>	<u>20,603</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

C. Balance Sheet

At 31st December, 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Interests in subsidiaries	14	<u>15,910</u>	<u>19,936</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		194	214
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		542	460
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><u>16,597</u></u>	<u><u>20,603</u></u>
CAPITAL AND RESERVES			
Issued capital	20	7,950	7,950
Reserves	22	<u>8,647</u>	<u>12,653</u>
		<u>16,597</u>	<u>20,603</u>

D. Consolidated Summary Statement of Changes in Equity

For the year ended 31st December, 2002

	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Total equity at 1st 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	<u>(4,006)</u>	<u>(11,286)</u>
Total equity at 31st December		<u><u>16,597</u></u>	<u><u>20,603</u></u>

E. Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	<u>(290)</u>	<u>—</u>
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	<u>—</u>	<u>(17)</u>
Cash used in operations	(2,322)	(4,530)
Interest received	<u>245</u>	<u>740</u>
Net cash outflow from operating activities	<u>(2,077)</u>	<u>(3,790)</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
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	<u>—</u>	<u>(4)</u>
Net cash inflow/(outflow) from investing activities		<u>13,633</u>	<u>(16,904)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid to a minority shareholder of a subsidiary		<u>—</u>	<u>(1,223)</u>
Net cash outflow from financing activities		<u>—</u>	<u>(1,223)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		11,556	(21,917)
Cash and cash equivalents at beginning of year		<u>14,810</u>	<u>36,727</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>26,366</u></u>	<u><u>14,810</u></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		<u>269</u>	<u>902</u>
		<u><u>26,366</u></u>	<u><u>14,810</u></u>

F. Note to Financial Statements

For the year ended 31st December, 2002

1. CORPORATE INFORMATION

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

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

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

In 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 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.

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.

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

Capital reserve

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

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.

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.

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).

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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>—</u>	<u>1,514</u>	<u>3,684</u>	<u>1,371</u>	<u>2,352</u>	<u>111,566</u>	<u>6,036</u>
Segment results	<u>1,875</u>	<u>—</u>	<u>(1,246)</u>	<u>(6,250)</u>	<u>194</u>	<u>566</u>	<u>823</u>	<u>(5,684)</u>
Interest income and unallocated gains							278	798
Unallocated corporate expenses							<u>(5,750)</u>	<u>(9,750)</u>
Operating loss before tax							(4,649)	(14,636)
Tax							<u>—</u>	<u>—</u>
Loss before minority interests							(4,649)	(14,636)
Minority interests							<u>643</u>	<u>3,350</u>
Net loss from ordinary activities attributable to shareholders							<u>(4,006)</u>	<u>(11,286)</u>
Segment assets	—	—	717	3,018	23	21	740	3,039
Unallocated assets	—	—	—	—	—	—	<u>27,026</u>	<u>29,414</u>
Total assets	<u>—</u>	<u>—</u>	<u>717</u>	<u>3,018</u>	<u>23</u>	<u>21</u>	<u>27,766</u>	<u>32,453</u>
Segment liabilities	—	—	36	241	185	147	221	388
Unallocated liabilities	—	—	—	—	—	—	<u>5,349</u>	<u>5,220</u>
Total liabilities	<u>—</u>	<u>—</u>	<u>36</u>	<u>241</u>	<u>185</u>	<u>147</u>	<u>5,570</u>	<u>5,608</u>

	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
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)	—

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
Turnover		
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
	<u>111,566</u>	<u>6,036</u>
Other revenue		
Interest income	245	740
Others	33	58
	<u>278</u>	<u>798</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

6. OPERATING LOSS BEFORE TAX

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
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 (<i>note 7</i>)):		
Salaries and related staff costs	1,203	1,197
Pension contributions	131	137
	<u>1,334</u>	<u>1,334</u>
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	<u>(245)</u>	<u>(740)</u>

* 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.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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:

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

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
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	711	688
Pension contributions	21	22
	732	710
	732	710

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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	<u>3</u>	<u>2</u>

9. TAX

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

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 <i>HK\$'000</i>
Cost:	
At beginning of year	771
Additions	16
Disposals	(1)
Written off	<u>(2)</u>
At 31 December 2002	<u>784</u>
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	<u>—</u>
At 31 December 2002	<u>490</u>
Net book value:	
At 31 December 2002	<u><u>294</u></u>
At 31 December 2001	<u><u>481</u></u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

13. INTANGIBLE ASSETS

Group

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

14. INTERESTS IN SUBSIDIARIES

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

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

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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 - <i>note (i)</i>	PRC	US\$5,000,000	—	70	Provision of data broadcasting services and sale of related hardware and software
CDB Trading - <i>note (ii)</i>	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.

15. INVENTORIES

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

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

16. TRADE RECEIVABLES

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

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

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

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	26,097	13,908	768	98
Time deposits	<u>269</u>	<u>14,551</u>	<u>269</u>	<u>902</u>
	26,366	28,459	1,037	1,000
Less: Time deposit with original maturity of more than three months	<u>—</u>	<u>(13,649)</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	<u><u>26,366</u></u>	<u><u>14,810</u></u>	<u><u>1,037</u></u>	<u><u>1,000</u></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	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>		
1,200,000,000 ordinary shares of HK\$0.025 each	<u>30,000</u>	<u>30,000</u>
<i>Issued and fully paid:</i>		
318,000,000 ordinary shares of HK\$0.025 each	<u>7,950</u>	<u>7,950</u>

Share options

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.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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

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

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

Company

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

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 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
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	<u>—</u>	<u>(156)</u>
	—	1,400
Gain on dissolution of a subsidiary	<u>—</u>	<u>4</u>
	<u>—</u>	<u>1,404</u>
Satisfied by:		
Cash	<u>—</u>	<u>1,404</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	—	1,404
Cash and bank balances as at the date of dissolution	<u>—</u>	<u>(1,408)</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.

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	2001	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	141	232	84	138
In the second to fifth years, inclusive	<u>84</u>	<u>25</u>	<u>84</u>	<u>6</u>
	<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:

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

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:

- (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.

3. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE MONTHS ENDED 31ST MARCH, 2003

Set out below is the unaudited financial statements of the Group for the three months ended 31st March, 2003 as extracted from the first quarterly report 2003 of the Company.

Consolidated Income Statement

For the three months ended 31st March, 2003

	<i>Notes</i>	For the three months ended 31st March	
		2003	2002
		<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	1	<u>323</u>	<u>461</u>
OPERATING LOSS BEFORE TAX		(1,709)	(1,325)
TAX	2	<u>—</u>	<u>—</u>
LOSS BEFORE MINORITY INTERESTS		(1,709)	(1,325)
Minority Interests		<u>81</u>	<u>123</u>
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,628)</u>	<u>(1,202)</u>
Loss per share	3	<u>(0.51 cents)</u>	<u>(0.38 cents)</u>

Notes:

1. Turnover

Turnover represents the invoiced value of data broadcasting hardware and software sold and related services rendered, net of value-added tax, business tax and government surcharges and after allowance for goods returned and trade discounted.

2. Tax

No provision for the income tax of the People's Republic of China (the "PRC") and Hong Kong profits tax has been made as the Group had no assessable profits arising in the PRC and Hong Kong during the period.

Under the Income Tax Law of the PRC, the Group's operation in the PRC is subject to state income tax of 30% and local income tax of 3%. Pursuant to an approved documents issued by Tianjin High-tech Industry Park State Tax Bureau, the Group is exempted from state income tax for the first two years of operation from 2000 when it first became profitable and thereafter, is entitled to a 50% relief from state income tax for the third to fifth years inclusive, in accordance with relevant accounting principles generally accepted in the PRC and the relevant Income Tax Law of the PRC. The Group is also exempted from local income tax for the first five years of operation, starting from 2000 when it first became profitable.

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

3. Loss per share

The calculation of basic loss per share for the three months ended 31 March 2003 were based on the loss attributable to shareholders of HK\$1,628,000 (2002: HK\$1,202,000) and on 318,000,000 (2002: 318,000,000) shares in issue during the three months ended 31 March 2003.

4. Reserves

During the period under review, there is no movement to and from any reserves.

4. INDEBTEDNESS

As at the close of business on 30th April 2003, being the Latest Practicable Date for the purpose of this indebtedness statement, the Group did not have any mortgages, charges, debentures or other loan capital, bank loans and overdrafts or other similar indebtedness, liabilities under acceptable credits, obligation under hire purchase contracts or finance lease or guarantees.

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 interests 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. However, the supplier made a further appeal and no judgement is reached by the Court up to the Latest Practicable Date. Save as the above, the Group had no material contingent liabilities.

5. STATEMENT OF PROFORMA UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE OF THE GROUP

The following statement of the proforma unaudited adjusted consolidated net tangible asset value of the Group is prepared based on the audited consolidated net tangible asset value of the Group as at 31st December, 2002 adjusted by the unaudited net loss of the Group for the three months ended 31st March, 2003.

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group as at 31st December, 2002	16,459
Unaudited net loss of the Group for the three month period ended 31st March, 2003	<u>(1,628)</u>
Proforma unaudited adjusted consolidated net tangible assets of the Group	<u>14,831</u>
Proforma unaudited adjusted consolidated net tangible assets of the Group per share (based on 318,000,000 Shares in issue as at the Latest Practicable Date)	<u>4.7 HK cents</u>

6. MATERIAL CHANGE

The Directors are not aware of any material change in the financial or trading position of the Group since 31st December, 2002, the date to which the latest published audited accounts were made up.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Company.

The information contained in this document (other than that relating to the Offeror and its directors) is supplied by the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information in relation to the Company contained in this document (other than that relating to the Offeror and its directors) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than that relating to the Offeror and its directors) not contained in the document, the omission of which would make any statement in this document misleading.

The information contained in this document (other than that relating to the Group and the Directors) is supplied by the Offeror. The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Group and the Directors) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than that relating to the Group and the Directors) not contained in this document, the omission of which would make any statement in this document misleading.

2. SHARE CAPITAL

No new Shares have been issued by the Company since 31st December 2002, being the end of the last financial year of the Company, and up to the Latest Practicable Date. The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

	<i>HK\$</i>
<i>Authorised:</i>	
<u>1,200,000,000</u> Shares of HK\$0.025 each	<u>30,000,000</u>
<i>Issued and fully paid up:</i>	
<u>318,000,000</u> Shares of HK\$0.025 each	<u>7,950,000</u>

All Shares rank pari passu in all respects as regards to rights to dividends, voting and return of capital.

The Shares are listed and traded on the GEM. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

As at the Latest Practicable Date, there were 12,000,000 outstanding Share Options, held as to 4,000,000 outstanding Share Options each by three employees of the Company under the employee share option scheme of the Company entitling the holders of the Share Options to subscribe for, in aggregate, 12,000,000 new Shares, representing approximately 3.64% of the then enlarged total issued share capital of the Company, at an exercise price of HK\$1.775 per Share at any time up to 3rd February, 2007. Under the employee share option scheme of the Company, these 12,000,000 outstanding Share Options are not transferable or assignable.

Save as aforesaid, as at the Latest Practicable Date, no other Shares or securities convertible into or warrants or options to subscribe for or derivatives relating to Shares were in issue or outstanding.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors in the Company

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Type of Interest	Approximate percentage of interest (%)
Mr. Wang	15,900,000	Beneficial owner	Personal	5.00
Ms. Bu	15,900,000	Beneficial owner	Personal	5.00

Save as disclosed in this paragraph, as at the Latest Practicable Date, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

(b) **Interests of the Substantial Shareholders in the Company**

So far as was known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares	Approximate percentage of interest (%)
Apex Digital (<i>note 1</i>)	Beneficial owner	118,250,000	37.19
United Delta (<i>note 1</i>)	Interest of a controlled corporation	118,250,000	37.19
Mr. Ji (<i>notes 1 and 2</i>)	Interest of a controlled corporation	118,250,000	37.19
	Beneficial owner	47,700,000	15.00
Mr. Hsu (<i>note 1</i>)	Interest of a controlled corporation	118,250,000	37.19
Ms. Liu Ruying (<i>note 3</i>)	Family interest	165,950,000	52.19
Ms. Susan Chang (<i>note 4</i>)	Family interest	118,250,000	37.19
Mr. Xu	Beneficial owner	22,350,000	7.03
Mr. Lau	Beneficial owner	15,900,000	5.00
Ms. Bu	Beneficial owner	15,900,000	5.00
Mr. Guo Hui Qin (<i>note 5</i>)	Family interest	15,900,000	5.00
Mr. Wang	Beneficial owner	15,900,000	5.00
Ms. Kou Mei Qin (<i>note 6</i>)	Family interest	15,900,000	5.00
Mr. Wang Zi Jian (<i>note 7</i>)	Family interest	15,900,000	5.00
Ms. Kou	Beneficial owner	15,900,000	5.00
Mr. He Zhiping	Beneficial owner	17,010,000	5.34

Notes:

- (1) Apex Digital is beneficially owned as to 65% by Mr. Ji and 35% by United Delta, a private corporation incorporated in the USA and which is equally owned by Mr. Ji and Mr. Hsu. Accordingly, each of Mr. Hsu and Mr. Ji is deemed to be interested in the 118,250,000 Shares owned by Apex Digital.
- (2) In addition to Mr. Ji's deemed interest in the 118,250,000 Shares held by Apex Digital, Mr. Ji is interested in another 47,700,000 Shares held by him directly, and is therefore interested in a total of 165,950,000 Shares.
- (3) Ms. Liu Ruying is the spouse of Mr. Ji and, under section 316 of the SFO, is therefore deemed to be interested in all 165,950,000 Shares in which Mr. Ji is interested.

- (4) Ms. Susan Chang is the spouse of Mr. Hsu and, under section 316 of the SFO, is therefore deemed to be interested in all 118,250,000 Shares in which Mr. Hsu is interested.
- (5) Mr. Guo Hui Qin is the spouse of Ms. Bu and, under section 316 of the SFO, is therefore deemed to be interested in all 15,900,000 Shares in which Ms. Bu is interested.
- (6) Ms. Kou Mei Qin is the spouse of Mr. Wang and, under section 316 of the SFO, is therefore deemed to be interested in all 15,900,000 Shares in which Mr. Wang is interested.
- (7) Mr. Wang Zi Jian is a son under the age of 18 years of Mr. Wang and, under section 316 of the SFO, is therefore deemed to be interested in all 15,900,000 Shares in which Mr. Wang is interested.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Save as disclosed above, as at the Latest Practicable Date, the members of the Offeror's concert group (including directors of the Offeror) did not have any other shareholding interest in the Company.

(c) Interests in the Offeror

As at the Latest Practicable Date, none of the Company, any of its subsidiaries or associated corporations, or the Directors had any beneficial interest in the shares of the Offeror nor had any of them dealt in the shares of the Offeror during the period beginning six months prior to the Offer Period and ending on the Latest Practicable Date.

(d) Other interests

- (i) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any person who is acting in concert with the Offeror, or with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "associate" in the Takeovers Code.
- (ii) As at the Latest Practicable Date, none of the subsidiaries of the Company nor any pension fund of the Company or its subsidiaries had any interest in the Shares.
- (iii) Save for the interest of Oriental Patron in the Shares disclosed in the letter from the Board set out in this document, as the Latest Practicable Date, none of the advisers to the Company as specified in class (2) of the definition of "associate" in the Takeovers Code had any interest in the Shares.
- (iv) As at the Latest Practicable Date, no Shares were managed on a discretionary basis by fund managers connected with the Company.

4. DEALING IN SHARES

Save for the entering into of the Deeds and the acquisition of 80,000,000 Shares by the Offeror on 17th October, 2002 as disclosed in the paragraph headed “Dealings and holdings in the Shares” in the letter from Somerley contained in this document, none of the Directors, the Offeror, directors of the Offeror and persons acting in concert with the Offeror had dealt in any Shares during the Relevant Period.

None of the advisers to the Company as specified in class (2) of the definition of “associate” in the Takeovers Code had dealt in the Shares for their own accounts during the Offer Period and ending on the Latest Practicable Date.

No subsidiary of the Company, or any of its associates, or any pension fund of the Group, had dealt for value in any Shares during the Offer Period and ending on the Latest Practicable Date. No fund manager connected with the Company had dealt for value in any Shares during the Offer Period and ending on the Latest Practicable Date.

5. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the period between 23rd June, 2002, being the date falling six months prior to the commencement of the Offer Period, and the Latest Practicable Date were HK\$4.15 per Share on 22nd May, 2003 and HK\$1.78 per Share on 18th November, 2002, respectively.
- (b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the commencement date of the Offer Period:

	Closing price (HK\$)
28th June, 2002	2.1
31st July, 2002	2.075
30th August, 2002	2.075
30th September, 2002	1.92
31st October, 2002	1.80
29th November, 2002	1.84

- (c) The closing price of the Shares on the Stock Exchange on 26th March, 2003, being the last day on which the Shares were traded before the suspension of trading on 27th March, 2003 at the request of the Company, was HK\$3.95.
- (d) The closing price of the Shares in the Company on the Stock Exchange on the Latest Practicable Date was HK\$3.5.

6. LITIGATION

Save as disclosed in note 24 to the financial statements set out on page 64 in Appendix II to this document, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. MATERIAL CONTRACTS

Save as disclosed as follows, there are no contracts (other than contracts entered into in the ordinary course of business) that have been entered into by any member of the Group within the two years immediately preceding the date of this document which are or may be material:

- (a) By an engagement letter dated 23rd December, 2002 entered into between the Company and Oriental Patron, the Company appointed Oriental Patron as its financial advisor to advise on various matters in relation to the Offer for the consideration stated therein; and
- (b) By an engagement letter dated 31st March, 2003 entered into between the Company and Altus, the Company appointed Altus as the financial advisor to the Independent Board Committee to advise on various matters in relation to the Offer for the consideration stated therein.

8. EXPERTS

The following are the qualifications of each of the experts who have been named in this document or given their opinion or advice which are contained in this document:

Name	Qualification
Altus	Licensed corporation under the SFO
Somerley	Licensed corporation under the SFO
Oriental Patron	Licensed corporation under the SFO

9. CONSENT

Altus, Somerley and Oriental Patron have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the text of their letters and references to their names in the form and context in which they are included.

10. SERVICE CONTRACTS

There are no existing or proposed service contracts between any of the Directors and any member of the Group other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation). No service contract between any of the Directors and any member of the Group has been entered into or amended during the six month period ending on the commencement date of the Offer Period.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the liaison office of the Company at 16th Floor, Hing Yip Commercial Centre, 272-284 Des Voeux Road Central, Hong Kong while the Offer remains open.

- (a) the memorandum of association and bye-laws of the Company;
- (b) the certificate of incorporation and bye-laws of the Offeror;
- (c) the annual report of the Company for the two years ended 31st December, 2002;
- (d) the letter of advice of Altus, the text of which is set out on pages 24 to 35 of this document;
- (e) the letter of recommendation of the Independent Board Committee, the text of which is set out on page 23 of this document;
- (f) the letter from Somerley, the text of which is set out on pages 14 to 22 of this document;
- (g) the irrevocable undertakings given by Messrs Cheng Ze, Han Tao and Wang Chao Ming to Apex Digital as described under the paragraph headed “Share Options and irrevocable undertaking from the Option Holders” in the letter from Somerley contained in this document;
- (h) the material contracts set out under the paragraph headed “Material contracts” in Appendix III to this document; and
- (i) the written consents referred to in the paragraph headed “Consent” in Appendix III to this document.

12. MISCELLANEOUS

- (a) The Secretary of the Company is Mr. Shum Shing Kei. Mr. Shum is an associate member of the Hong Kong Society of Accountants.
- (b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (c) The head office and principal place of business of the Company is situated at No. 3 Hua Tian Road, Huayuan Industry Area, Tianjin High-Tech Industry Park, Tianjin, PRC.
- (d) The liaison office of the Company in Hong Kong is situated at 16th Floor, Hing Yip Commercial Centre, 272-284 Des Voeux Road Central, Hong Kong.

- (e) The Bermuda principal share registrar and transfer office of the Company is The Bank of Bermuda Limited, which is situated at Bank of Bermuda Building, 6 Front Street, Hamilton HM 11, Bermuda.
- (f) The Hong Kong branch share registrar and transfer office of the Company is Hong Kong Registrars Limited, which is situated at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (g) The registered office of the Offeror is situated at 2919 E. Philadelphia Street, Ontario, CA 91761, U.S.A.
- (h) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer.
- (i) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (j) There is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Offer.
- (k) The Offeror does not have any intention to transfer any Shares pursuant to the Offer to any other person.
- (l) There is no person who has irrevocably committed to accepting or rejecting the Offer.
- (m) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.
- (n) None of the Directors has entered into any service contract with the Company or any of its subsidiaries or associated companies which have more than 12 months to run, or which have been entered into or amended within six months before the commencement of the Offer Period.
- (o) The English language text of this document shall prevail over the Chinese language text.