

The following is the text of an accountants' report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong:



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

17th January, 2000

The Directors
China Data Broadcasting Holdings Limited
Oriental Patron Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding China Data Broadcasting Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 (the “Relevant Period”), for inclusion in the prospectus of the Company dated 17th January, 2000 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda on 22nd September, 1999 under the Companies Act 1981 of Bermuda (as amended) for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. Pursuant to the Group reorganisation, as further described in the paragraph headed “Corporate reorganisation” in Appendix IV of the Prospectus, the Company acquired from its immediate holding company, Ultra Challenge Limited, the entire issued share capital of Verified Solutions Group Limited (“Verified Solutions”), which holds a 70% interest in Tianjin Tiancai Network Software Co., Ltd. (“Tiancai Network”). The principal business of Tiancai Network is data broadcasting (the “Data Broadcasting Business”).

We have audited the financial information of the Data Broadcasting Business for the Relevant Period in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants (the “HKSA”). No audited financial statements have been prepared for the Company, Verified Solutions or Tiancai Network since the dates of their incorporation/establishment. We have, however, performed our own independent review of all relevant transactions of these companies since the dates of their incorporation/establishment.

We have prepared this report in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the HKSA.

The summaries of the pro forma combined results of the Group for the Relevant Period and of the pro forma combined net assets of the Group as at 30th June, 1999 (the “Summaries”) set out in this report have been prepared based on the audited and management financial information of the Data Broadcasting Business and the companies now comprising the Group and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the pro forma combined results of the Group for the Relevant Period and of the pro forma combined net assets of the Group as at 30th June, 1999.

1. BASIS OF PRESENTATION

The pro forma combined results of the Group include the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Period. However, no notional interest income on the registered capital of US\$140,000 contributed by Verified Solutions into Tiancai Network has been reflected in the pro forma combined results of the Group for the Relevant Period. Had notional interest income been deemed to have been earned as if the aforesaid registered capital was contributed on 1st January, 1997, the pro forma combined results of the Group for the years ended 31st December, 1997 and 1998 and the six months ended 30th June, 1999 would be improved by \$81,000, \$66,000 and \$23,000, respectively. The pro forma combined net assets of the Group include the assets and liabilities of the companies now comprising the Group as at 30th June, 1999 as if the current Group structure was in place on that date. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, both of which have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

<u>Company</u>	<u>Place and date of incorporation/ registration</u>	<u>Issued and paid-up capital/ registered capital</u>	<u>Attributable equity interest</u>	<u>Principal activities</u>
Verified Solutions Group Limited	British Virgin Islands 18th February, 1999	US\$10,000 Ordinary	100%	Investment holding
Tianjin Tiancai [#] Network Software Co., Ltd. (“Tiancai Network”)	People’s Republic of China 18th June, 1999	US\$200,000	70%	Provision of data broadcasting services and sale of related hardware and software

[#] indirectly held by the Company

Tiancai Network is a Sino-foreign co-operative joint venture established in the People’s Republic of China (the “PRC”) on 18th June, 1999 with a tenure of 15 years. Subsequent to 30th June, 1999, pursuant to the joint venture agreement, the Group contributed cash of US\$140,000 and the PRC joint venture partner, Genius Co., Ltd (“Genius”), contributed the Full Channel Data Broadcasting Technology (the “Technology”), the Data Broadcasting Business together with the relevant assets and liabilities, with an aggregate value of US\$60,000 for 70% and 30% interest in Tiancai Network, respectively. Tianjin University is a substantial shareholder of Genius.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the HKSA, are set out below:

Joint venture company

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

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

Capital reserve

Capital reserve arising on the acquisition of the Technology and the Data Broadcasting Business represents the excess of the Group's interest in the fair values ascribed to its identifiable net assets over the consideration paid by the Group.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

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 a fixed asset has 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 the fixed asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the proceeds on disposition and the carrying amount of the relevant 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 effective annual rate used for this purpose is as follows:

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

Intangible asset

Intangible asset represents the cost of acquiring the Technology. It is stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been a permanent diminution in value, when it is written down to a value determined by the directors.

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 from 1st July, 1999. No amortisation of intangible asset was taken in the Relevant Period as the intangible asset had not been brought into economic use and it was included in the Group's combined net assets as at 30th June, 1999 on a pro forma basis.

Research and development costs

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

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identified and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are amortised on the straight-line basis over the expected economic useful life of the products, subject to a maximum period of five years commencing in the year when the products are put into commercial production.

Leased assets

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

Inventories

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

Related parties

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

Foreign currencies

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

Deferred taxation

Deferred taxation 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

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) on 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) on 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.

Pension costs

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

3. RESULTS

The following is a summary of the pro forma combined results of the Group for the Relevant Period prepared on the basis set out in Section 1 above:

		Year ended		Six months
		31st December,		ended
		1997	1998	30th June,
	<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Turnover	(a)	293	7,294	4,324
Cost of sales		<u>(222)</u>	<u>(5,770)</u>	<u>(3,943)</u>
Gross profit		71	1,524	381
Selling expenses		(12)	(315)	(262)
General and administrative expenses		<u>(186)</u>	<u>(480)</u>	<u>(305)</u>
Profit/(loss) before taxation	(b)	(127)	729	(186)
Taxation	(e)	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(loss) before minority interests		(127)	729	(186)
Minority interests		<u>38</u>	<u>(219)</u>	<u>56</u>
Net profit/(loss) attributable to shareholders		<u>(89)</u>	<u>510</u>	<u>(130)</u>
Earnings/(loss) per share	(g)	<u>(0.20) cents</u>	<u>1.13 cents</u>	<u>(0.29) cents</u>

Notes:

(a) **Turnover and revenue**

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

Revenue from the following activities has been included in turnover:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Sale of data broadcasting hardware and software	294	6,925	4,095
Income from provision of data broadcasting and related services	—	423	264
	294	7,348	4,359
Less: Business tax and government surcharges	(1)	(54)	(35)
	<u>293</u>	<u>7,294</u>	<u>4,324</u>

Business tax is calculated at 5% of service revenue. Government surcharges, comprising City Development Tax and Education Supplementary Tax, are calculated at 7% and 3% of the business tax and net VAT payable, respectively.

(b) **Profit/(loss) before taxation**

Profit/(loss) before taxation is arrived at after charging:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Salaries and related staff costs	127	336	418
Pension contributions	20	54	68
	<u>147</u>	<u>390</u>	<u>486</u>
Cost of inventories sold	222	5,137	2,978
Auditors' remuneration	1	15	12
Depreciation	7	15	12
Operating lease rentals in respect of land and buildings	—	61	56
Research and development expenditure	<u>186</u>	<u>270</u>	<u>160</u>

(c) Director's remuneration

Details of the remuneration paid to one executive director during the Relevant Period are as follows:

	Year ended 31st December,		Six months ended 30th June,
	1997 \$'000	1998 \$'000	1999 \$'000
Fees	—	—	—
Other emoluments:			
Salaries and allowances	22	32	16
Pension contributions	<u>4</u>	<u>6</u>	<u>3</u>
	<u>26</u>	<u>38</u>	<u>19</u>

The number of directors whose remuneration fell within the following band is as follows:

	Year ended 31st December,		Six months ended 30th June,
	1997	1998	1999
Nil – \$1,000,000	<u>7</u>	<u>7</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

(d) Five highest paid employees

The five highest paid employees of the Group included one director for each of the two years ended 31st December, 1998, and for the six months ended 30th June, 1999. Information relating to this director's emoluments has been disclosed above. The emoluments paid to the remaining four highest paid, non-director employees during the Relevant Period are set out below:

	Year ended 31st December,		Six months ended 30th June,
	1997 \$'000	1998 \$'000	1999 \$'000
Salaries and allowances	75	73	57
Pension contributions	<u>15</u>	<u>15</u>	<u>11</u>
	<u>90</u>	<u>88</u>	<u>68</u>

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

	Year ended		Six months ended
	31st December,		30th June,
	1997	1998	1999
Nil – \$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Period, no emoluments had been paid by the Group to the directors or the other highest paid, non-director employees as a bonus, as an inducement to join the Group, or as compensation for loss of office.

(e) Taxation

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

Prior to the Group reorganisation, the Data Broadcasting Business of Tiancai Network was carried on by Genius. Genius, a joint stock limited liability company with its "A" shares listed on the Shenzhen Stock Exchange, is situated in an approved high-technology development zone and is a high-technology enterprise. According to the relevant tax rules and regulations in the PRC, Genius was exempted from income tax for the two fiscal years commencing in November 1997 and ended on 31st December, 1998 and, thereafter, is taxable at a concessionary income tax rate of 15%. Prior to November 1997, pursuant to an approval document issued by the relevant PRC tax authorities, no income tax was payable by Tiancai Information System Engineering Centre of Tianjin University, the predecessor of Genius, as it was wholly-owned by Tianjin University in the PRC.

Under the Income Tax Law of the PRC, Tiancai Network is subject to an income tax rate of 33%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network is exempted from income tax for the first two profitable years of operations and thereafter, is entitled to a 50% relief from income tax for the following three years.

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

(f) Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries during the Relevant Period.

(g) Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share for the Relevant Period is based on the net profit/(loss) attributable to shareholders of the relevant years/period and on the 45,000,000 shares in issue during the Relevant Period on the assumption that the Group reorganisation had been completed on 1st January, 1997.

(h) Related party transactions

During the Relevant Period, the Group had the following material transactions in the normal course of business with related companies:

CONTINUING TRANSACTIONS

Name of related party	Nature of transactions	Year ended		Six months ended
		31st December,		30th June,
		1997	1998	1999
		\$'000	\$'000	\$'000
Genius and its subsidiary	Rental of office premises	—	61	56
	Purchases of goods	<u>3</u>	<u>576</u>	<u>327</u>

DISCONTINUED TRANSACTIONS

Name of related party	Nature of transactions	Year ended		Six months
		31st December,	31st December,	ended
		1997	1998	30th June,
		\$'000	\$'000	1999
				\$'000
Tianjin University and its associates	Subcontracting fees paid	17	387	—
Genius' subsidiaries	Sale of goods	—	720	—

In the opinion of the directors, the rental expenses paid to Genius in 1999 and the goods purchased from a subsidiary of Genius during the Relevant Period were at rates approximating open market rates. All other transactions were conducted on basis of rates agreed between the Group and the related companies.

In addition to the above related party transactions, during the Relevant Period, Tiancai Network was also granted the right to use the "Tiancai" trademark in the normal course of business by Genius for no consideration.

On 1st July, 1999 and 8th January, 2000, 1999, Tiancai Network entered into various contracts with Genius and its subsidiary for the rental of certain properties, for the purchase of software, for the production of TV set top boxes, and for the use of the "Tiancai" trademark. Further details of these contracts are set out in section 7 of this report and in the paragraph headed "Continuing Connected Transaction under the section headed "Business" in the Prospectus.

4. NET ASSETS

The following is a summary of the pro forma combined net assets of the Group as at 30th June, 1999 and is prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<i>\$'000</i>
FIXED ASSETS	(a)	637
INTANGIBLE ASSET	(b)	511
CURRENT ASSETS		
Accounts receivable	(c)	732
Inventories	(d)	211
Other debtor	(e)	<u>1,085</u>
		<u>2,028</u>
CURRENT LIABILITIES		
Accounts payable		1,100
Other payables		<u>88</u>
		<u>1,188</u>
NET CURRENT ASSETS		<u>840</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,988
MINORITY INTERESTS		<u>(596)</u>
NET ASSETS		<u><u>1,392</u></u>

Notes:

(a) Fixed assets

	At cost	Accumulated depreciation	Net book value
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Furniture, fixtures and equipment	<u>662</u>	<u>25</u>	<u>637</u>

(b) Intangible asset

Intangible asset represents the cost of acquiring the Technology from Genius, which was valued by Sallmanns (Far East) Limited, a firm of chartered surveyors and independent valuers, at RMB547,000 (\$511,000) as at 30th June, 1999, on a market value basis.

The address of Sallmanns (Far East) Limited is set out in the section headed "Directors and parties involved in the Placing" in the Prospectus.

(c) Accounts receivable

Included in the balance is an amount of \$474,000 due from certain subsidiaries of Genius which arose from normal trading activities and were fully settled subsequent to 30th June, 1999.

(d) Inventories

	\$'000
Finished goods	<u>211</u>

(e) Other debtor

This represents the cash contribution of US\$140,000 deemed to have been made by the Group into Tiancai Network which is reflected in the pro forma combined net assets of the Group as at 30th June, 1999 as if the current Group structure was in place at that date.

(f) Reserves

Movement in the reserve of the Group during the Relevant Period is as follows:

	\$'000
Capital reserve:	
At 1st January, 1997	—
Movement during the Relevant Period	<u>307</u>
At 30th June, 1999	<u>307</u>

(g) Commitments*Capital commitments*

	\$'000
Authorized but not contracted for	<u>2,500</u>

(h) Contingent liabilities

As at 30th June, 1999, the Group had no material contingent liabilities.

(i) Net assets of the Company

The Company was incorporated on 22nd September, 1999. On the basis set out in Section 1 above, the net assets of the Company as at 30th June, 1999 would have been approximately \$1,392,000, representing the Company's investment in its subsidiaries.

(j) Distributable reserves

As at 30th June, 1999, the Company had not been incorporated and hence there was no reserve available for distribution to the shareholders of the Company on that date.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the Relevant Period by the Company or any of the companies now comprising the Group to the directors of the Company.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors for the year ending 31st December, 2000 will be approximately \$480,000, payable under directors' service contracts, the terms of which are set out in the section headed "Further information about Directors, management, staff and experts" in Appendix IV of the Prospectus.

6. ULTIMATE HOLDING COMPANY

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

7. SUBSEQUENT EVENTS

The following events took place subsequent to 30th June, 1999:

- (a) on 1st July, 1999 Tiancai Network entered into a tenancy agreement with Genius, whereby Genius agreed to lease to Tiancai Network office premises, together with fixtures therein, at a rental of, inclusive of water and electricity charges, air-conditioning, heat charges and management fee for a period from 1st July, 1999 to 31st December, 2001. The annual rental for the period from 1st July, 1999 to 31st December, 2000 is approximately RMB171,550 and the rental for the year ending 31st December, 2001 is subject to review by both parties;
- (b) on 8th January, 2000, Tiancai Network entered into a license agreement with Genius, whereby Tiancai Network is licensed by Genius to use the "Tiancai" trademark owned by Genius free of charge as long as Genius holds at least 20% equity interests in Tiancai Network;
- (c) on 8th January, 2000, Tiancai Network entered into certain connected transaction agreements with Genius and its subsidiary, the details of which are set out in the paragraph headed "Continuing Connected Transactions" under the section headed "Business" in the Prospectus; and
- (d) on 11th January, 2000, the companies now comprising the Group underwent a corporate reorganisation in preparation for the listing of the shares of the Company on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The details of the corporate reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix IV of the Prospectus. As a result of the reorganisation, the Company became the holding company of the Group on 11th January, 2000;

Save as aforesaid, no other material significant events have taken place subsequent to 30th June, 1999.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 1999.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong