



**CHINA DATA
BROADCASTING**

China Data Broadcasting Holdings Limited

(中華數據廣播控股有限公司)*

(incorporated in Bermuda with limited liability)

2001 INTERIM REPORT

HIGHLIGHTS

The management firmly believes that research and development is crucial to the long-term success of the Group. The Group continues to focus on the R&D activities and had a number of accomplishments during the period under review.

As at 30 June 2001, we had alliance with 202 TV network operators and 152 authorized dealers, which located all over the PRC.

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

As a result of the stagnant PRC stock market and fierce competition in the market, the Group's turnover dropped by 70% down to HK\$4.3 million, which led to a loss for the Group of HK\$1.9 million for the period.

The Group's cash at banks at 30 June 2001 amounted to HK\$32 million.

INTERIM RESULTS (UNAUDITED)

The directors of China Data Broadcasting Holdings Limited (“the Company”) announce the unaudited results of the Group for the three months and six months ended 30th June, 2001 with the comparative figures for the corresponding periods in 2000.

	<i>Notes</i>	For the three months ended 30th June		For the six months ended 30th June	
		2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	<u>1,763</u>	<u>9,953</u>	<u>4,272</u>	<u>14,165</u>
OPERATING PROFIT/(LOSS) BEFORE TAX		(1,544)	946	(1,843)	1,082
TAX	3	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(1,544)	946	(1,843)	1,082
Minority Interests		<u>130</u>	<u>(569)</u>	<u>(7)</u>	<u>(670)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,414)</u>	<u>377</u>	<u>(1,850)</u>	<u>412</u>
Earnings/(Loss) per share	4	<u>(0.4 cents)</u>	<u>0.1 cents</u>	<u>(0.6 cents)</u>	<u>0.1 cents</u>

Notes:

1. Group reorganisation and basis of preparation

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

2. Turnover

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

3. Tax

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

Under the Income Tax law of the People's Republic of China ("PRC"), the Group's operation in PRC is subject to state income tax of 30% and local income tax of 3%. Pursuant to an approved document 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 starting from the year when it first becomes profitable and thereafter, is entitled to a 50% relief from state income tax for the third to fifth years, inclusive. The Group is also exempted from local income tax for the first five years of operation, starting from the year when it first becomes profitable.

4. Earnings/(Loss) per share

The calculations of loss per share for the three months and six months ended 30th June 2001 were based on the loss attributable to shareholders of HK\$1,414,000 for the three months ended 30th June 2001 and HK\$1,850,000 for the six months ended 30th June 2001 and on 318,000,000 shares in issue during the three months and six months ended 30th June 2001.

The calculations of earnings per share for the three months and six months ended 30th June 2000 were based on the profit attributable to shareholders of HK\$377,000 and HK\$412,000 for the three months and six months ended 30th June 2000 respectively and on the weighted average of approximately 318,000,000 and 277,142,856 shares in issue for the three months and six months ended 30th June, 2000 respectively. The number of shares have been adjusted for the Company's Share Subdivision on 24th July, 2000.

DIVIDENDS

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

BUSINESS REVIEW

The management firmly believes that research and development is crucial to the long-term success of the Group. The Group continues to focus on the R&D activities and accomplished the following during the period under review:

- i. Developed the more advanced data broadcasting transmission model V and VI as well as the reception model VIII and IX.
- ii. Through the cooperation with the reputable Swedish company, Nexus, the Group has secured the know-how of the Conditional Access system. Application of the know-how to the Group's products and services will be made in due course.

- iii. Succeeded in the development of dynamic encryption system for broadcasting real time stock information, thereby allowing the transmission of data in greater security and reliability.
- iv. Obtained remarkable results on the research of the high-speed broadband data broadcasting system basing on the DVB-C technology.

In addition to the above R&D activities, the Group continued in its customer-oriented services. By capitalizing on the support of TV network operators all over the PRC, the Group is actively developing a nationwide sales distribution network for its products. As at 30 June 2001, we had alliance with 202 TV network operators and 152 authorized dealers, which located all over the PRC.

Pursuant to the agreements with the Shanghai and Shenzhen Stock Exchanges (“the Stock Exchanges”), the Group began to develop encrypted transmission system for the data disseminated by the Stock Exchanges (“the Data”). The Group also acts as the representative of the Stock Exchanges for the purposes of granting valid license to the TV network operators, allowing them to broadcast the Data. It is expected that the successful implementation of the agreements will not only enable the Group to secure a stable source of regular subscription income but also to strengthen the Group’s leading position in the industry, in terms of both technology and market share.

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

The Group’s result for the period was affected by the prevailing stagnant PRC stock market and also the fierce competition in the market. The Group’s turnover dropped by 70% down to HK\$4.3 million, which led to a loss for the Group of HK\$1.9 million for the period. The Group’s cash at banks at 30 June 2001 amounted to HK\$32 million.

OUTLOOK

In the short term, the Group will focus on the development, production and sale of data broadcasting transmission and reception modules basing on the most advanced encryption technology and assist the Stock Exchanges to build up a portfolio of licensed subscribers for the Data, thereby securing a stable source of regular subscription income for the Group.

In order to maintain the long-term sustained growth of the Group, more resources will be put on the high-speed data broadcasting system basing on the Full Channel and DVB-C broadband technology. The Group will capitalize on the advantage of its well-known brand name, by further strengthening its sale and after-sale services to expand its market share. The Group will also recruit additional quality distributors in major cities of the PRC and advertise on TV, newspapers and magazines to achieve the best results.

Some of the business objectives of the Group have yet to be realized. The management considers that the year 2001 will be a rather tough year for the Group's operations and indeed for the data broadcasting industry. However, the management is confident that relying on its solid foundation built, the Group will be able to achieve rewarding operations and maintain its leading position in the data broadcasting industry.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2001, the interests of the directors and their associates in the share capital of the Company and the shares of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Directors	Personal Interests	Number of issued ordinary shares of HK\$0.025 each in the Company			Total Interests
		Family Interests	Corporate Interests	Other Interests	
Mr. Yao Xiao Dong	—	—	—	17,190,000(a)	17,190,000
Prof. Li Min Qiang	—	—	—	17,190,000(a)	17,190,000
Mr. Wang Guangxin	—	—	—	17,190,000(a)	17,190,000

Notes:

- a) These 17,190,000 shares, together with another 154,710,000 shares, are held by Ultra Challenge Limited (“Ultra Challenge”), the shares of which are in turn held by the HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust include Mr. Yao Xiao Dong, Prof. Li Min Qiang and Mr. Wang Guangxin. Accordingly, each of Mr. Yao Xiao Dong, Prof. Li Min Qiang and Mr. Wang Guangxin is deemed to be interested in 17,190,000 shares by virtue of his 10% interest under the trust.

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

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

The Company has a share option scheme under which, the directors of the Company may, at their discretion, invite any employee of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. No options had been granted to the directors during the period under review or outstanding as at 30th June, 2001.

Apart from the foregoing, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s directors or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

According to the register maintained by the Company pursuant to Section 16 of the SDI Ordinance as at 30th June 2001, the following interests in the Shares were recorded:

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

Notes:

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

COMPETING INTEREST

During the period under review, none of the directors or the substantial shareholders, management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTEREST

As at 30th June, 2001, Pacific Top Holding Limited, a fellow subsidiary of the Company's sponsor Oriental Patron Asia Limited ("Oriental Patron") were interested in 8,100,000 shares of the Company. Save as disclosed herein, none of Oriental Patron, its directors, employees or associates as referred to in Note 3 to rule 6.35 of the GEM Listing Rules had any interest in the shares of the Company as at 30th June, 2001.

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

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

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

By Order of the Board
Professor Kou Jisong
Chairman

Hong Kong, 13th August, 2001

COMPARISON OF BUSINESS PROGRESS

According to the business objectives as stated in the Prospectus dated 17th January 2000

Actual business progress/change in business objectives (if any).

Sales of PC plug-in boards

— Launch FC data broadcasting PC plug-in board model VIII

Launched in June 2001.

— Target sales volume 80,000 units

Sold 13,000 units, which was lower than the planned target.

The reasons for the failure were:

- i. Stagnant PRC stock market lead to a drop in the demand of the products.
- ii. Fierce competition due to entry of new competitors, technology and products.

Sales of TV set top box

— Launch financial TV set top box model V

Sale of TV set top box has not been made.

— Launch multimedia TV set top box model III

— Target sales volume

— Financial 60,000 units

— Multimedia 60,000 units

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

Sales of software

— Target sales volume 32,000 units

Sold 7,000 units up to end of June 2001. The sale of software was also affected by the reasons as stated under the “PC plug-in board”.

Subscription income

— Target accumulated number of subscribers 180,800 subscribers

Total number of subscribers was 16,980 as at 30 June 2001. The shortfall was mainly due to the failure to achieve the target number of cooperative TV network operators. Please see below for the reasons of the shortfall concerning the number of cooperative TV network operators.

Number of strategically allied TV network operators

— Total (with or without cooperative agreements) 273, of which 139 are under cooperative agreements

Total number of strategically allied TV network operators was 202 of which 23 are under agreements for sharing of income. The shortfall was due to the fact that under cooperative agreements, the Group will make use of its FC technology to broadcast data. The National Standard concerning FC technology remains unclear, and as such, the Group determined to slow down the pace of signing of the cooperative agreement with TV network operators in order to avoid any possible loss that may arise from the release of any new National Standard concerning the FC technology.

Strategically allied content provider

- Establish 20 new content providers

The Group established 2 new content providers during the period. The Group considered that the content itself instead of the number of the content provider is important.

Marketing

Sales and after sales network

- Engage 70 new authorised distributors

Recruited 26 authorised distributors. As a result of the stagnant PRC market environment and inadequate demand, the Group recruited less authorized distributors.

Promotion activities

- Advertise on TV and in popular newspapers, periodicals or magazines

Advertisements made on TV and in newspapers. A large portion of costs was borne by TV network operators and distributors and hence, the actual costs incurred by the Group is minimal and amounted to only RMB33,000.

Market research

- Conduct research on market response to TV set top boxes to draw up the Group's sales and marketing program

The Group concluded that launching of the TV set top box should be postponed.

Production and Operation

Transmission modules

— Provide 60 new transmission modules for FC data broadcasting to TV network operators

Provided 2 new data broadcasting modules to TV network operators. The deviation was due to the uncertainty concerning the new standard regarding FC Technology. Details please refer to the explanation on “Number of strategically allied TV network operators”.

— Contribute 70 new transmission modules for VBI data broadcasting to TV network operators

Provided 16 new VBI data broadcasting modules to TV network operators.

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

Reception modules

— PC plug—in boards — 80,000 units

25,000 units of PC plug—in boards were produced. See reasons under “Sale of PC plug—in boards”.

— TV set top boxes

Financial — 60,000 units
Multimedia — 60,000 units

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

Contents for data broadcasting

— Start to produce distance education contents for 3 subjects of each of the 5 grades of secondary education

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

- Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers

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

Research and development

- Acquire computer hardware and software for product development

There was delay on the Group's plan on new product development as a result of the Group's prudent attitude towards the National Standard, and hence amount spent on this area was only RMB100,000.

Transmission modules

- Develop FC data broadcasting transmission module model VI

As the National Standard for the FC data broadcasting is still not available, the Group has not been able to develop FC data broadcasting transmission module model VI.

- Develop VBI data broadcasting transmission module model VIII

Succeeded in developing VBI data broadcasting transmission module model VIII in June 2001.

- Continue to research and develop high-speed broadband data broadcasting systems

Work has been doing based on the Full Channel and DVB-C broadband technology.

Reception modules

- Research and develop multimedia TV set top box model II

The research and development of multi-media TV set top box model II was in progress. The work was closely followed on the development of the National Standard.

Software

- Research and develop application software for TV set top boxes

The Group succeeded in the development of the first generation intelligent securities market information analysis software.

Sourcing of contents

- | | |
|--|---|
| — Acquire education contents for 3 subjects of each of the 5 grades of secondary education | The contents were obtained through cooperation of the strategically allied content providers. |
| — Source or acquire new contents from electronic newspapers and magazines publishers and financial information providers | Acquired or obtained new contents from existing electronic newspapers and magazines publishers and financial information providers. |

Human resources

Management	7	6
R & D		
— software	50	8 (see note 1 below)
— hardware	40	6 (see note 1 below)
Information Services	50	2 (see note 2 below)
Sales and Marketing	25	12 (see note 3 below)
Finance and Administration	3	3
Total	175	37

Note

1. Since cooperation partners for the R & D of new products had provided support which was more than expected resulting in less than expected number of staff required.
2. Cooperation with ICP regarding contents for distance education, and therefore not necessary to recruit more content production staff.
3. The number decreased as a result of the stagnant market environment and insufficient demand.

COMPARISON OF USE OF PROCEEDS

Up to 30 June, 2001, the Group had only utilised about HK7.5 million of the Placing proceed. This represents approximately 29% utilisation of the HK\$25.5 million stated in the Prospectus.

The under utilisation is mainly due to:

1. Approximately 55% of the planned use was expected to be utilised as working capital for the production of transmission and reception modules. As a result of the Group's prudent attitude towards the forthcoming National Standard, the production schedule had been delayed accordingly.
2. The Group has also managed to have substantial savings on promotions and advertising costs since the Group was able to utilise free resources of its allied TV network operators and content providers such as newspapers for the Group's promotion and advertising activities.

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