



China Data Broadcasting Holdings Limited

中華數據廣播控股有限公司*

(Incorporated in Bermuda with limited liability)

China Data Broadcasting China Data Broadcasting China Data Broadcasting

Annual Report 2003

* For identification only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website of <http://www.hkgem.com> operated by the Stock Exchange. Companies listed on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Information

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	2919 E. Philadelphia St Ontario CA 91761 United States of America
Hong Kong liaison office	16th Floor Hing Yip Commercial Centre 272-284 Des Voeux Road Central Hong Kong
Web site	http://www.databroadcasting.com.hk
E-mail address	lobson@databroadcasting.com.hk
Compliance officer	Ms. Alice HSU Chu Yun
Qualified accountant	Mr. SHUM Shing Kei AHKSA
Company secretary	Mr. SHUM Shing Kei AHKSA
Authorised representatives	Prof. KOU Ji Song Mr. SHUM Shing Kei AHKSA
Members of the audit committee	Mr. LI Shan Hai Mr. WANG Fu Sun
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Stock exchange	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code	8016
Auditors	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong

Corporate Information

Legal advisers

Richards Butler
International Law Firm
20th Floor, Alexandra House
16-20 Chater Road
Hong Kong

Bermuda principal share registrar and transfer office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Hong Kong branch share registrar and transfer office

Hong Kong Registrars Limited
Room 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

The Hongkong and Shanghai Banking
Corporation Limited
China Insurance Group Building
141 Des Voeux Road Central,
Sheung Wan
Hong Kong

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

Chairman's Statement

BUSINESS REVIEW

During the year, the Group engaged in sourcing and procurement business in the consumer electronic industry (the "Procurement Business") and the data broadcasting business in the PRC.

Having achieved considerable operating results from the Procurement Business in past year, the Group determined to deploy more resources to explore business opportunities in this aspect. Prior to new management team in place on 30 June 2003, the Group had no revenue generated from the Procurement Business as no renewal of agreement with the connected party was made after its expiry on 31 December 2002. With the new management's extensive experience and knowledge in the consumer electronic industry, the Group secured transactions for the Procurement Business with independent manufacturers and customers. The turnover and contribution derived from the Procurement Business amounted to HK\$179.7 million and HK\$9.3 million, representing a growth of 65% and 397% compared with last year, respectively. The rapid growth in the Procurement Business enlarge income stream of the Group and hence, the Group can turn into profit in this year.

As regards the data broadcasting business in the PRC, the prolonged depression of the PRC stock market, the intense competition and the not-yet-released National Standard created uncertain market of data broadcasting business in the PRC. During the year, the Group adopted the prudent attitude towards the market demand and had scaled down certain of business activities such as launching and provision of certain new products and systems, signing co-operative agreements with TV network operations and content providers, etc. The turnover derived from the data broadcasting business for the year was decreased by 64% to HK\$1.0 million, compared with last year, which led to the operating loss in this business for the year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial and liquidity positions are healthy and stable. As at 31 December 2003, the Group has no borrowings and its cash and bank balances (including pledged deposit) amount to HK\$10.3 million. The Group's net current assets approximate to HK\$17.1 million and the Group does not have any charges on its assets. The management is confident that the Group's financial resources are sufficient to finance the daily operation.

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

Chairman's Statement

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2003, the total number of the Group's staff was approximately 30. The total staff costs, including directors' emoluments amounted to HK\$2.3 million for the year under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the Mainland China.

The Group established a Share Options Scheme to reward its employees for their individual performance. For the year ended 31 December 2003, there was a total of 12,000,000 outstanding share options to its employees. During the year under review, no share option had been granted nor exercised.

CONTINGENT LIABILITIES

The Company's subsidiary, Tianjin AVD, was a defendant in a lawsuit brought by a supplier in 2001 claiming approximately HK\$99,000 together with an interest of approximately HK\$3,800. A judgement in relation to this lawsuit was firstly reached by the District Court in Tianjin on 11 December 2001 and was in favour of Tianjin AVD, and the aforesaid supplier filed an appeal against the judgement on 22 December 2001. On 25 February 2002, the Court of Appeal in Tianjin overturned the judgement made by the District Court. The case was then re-heard by the District Court on 26 November 2002 under the instructions of the Court of Appeal. On 24 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, on 10 July 2003, the supplier made a further appeal to the People's Court of Tianjin. On the same date, the People's Court of Tianjin withdrew the previous judgement made by the District Court on 24 March 2003. In the opinion of the directors, the claim has no material impact to the Group and no provision has been made in these financial statements.

OUTLOOK

After the Group engaged in the Procurement Business in the past years, the Board believes that the development of the Procurement Business in the consumer electronic industry is indeed an appropriate approach to building up a steady and considerable income stream of the Group. In addition, the new management possess extensive experience and knowledge in the consumer electronic industry which is vital and beneficial to further develop the existing Procurement Business and explore further business opportunities in the consumer electronic industry, such as trading of finished goods/parts and components of televisions, DVD players, digital cameras, game consoles and other consumer electronic products. The Board determine to put more resources to develop the Procurement Business and explore further business opportunities in the consumer electronic industry and is confident that more revenue from the business relating to the consumer electronic products will be brought to the Group this year.

As regards the data broadcasting business in the PRC, the management conducted detailed review and realized that the Group indeed experiences the deteriorating market demand and encounters severe difficulties in the market, especially the fierce competitions, which is believed to persist in hear future. Accordingly, the Board will continue to adopt the prudent attitude towards investing resources to develop products and its sale and after-sale network. Moreover, the Board may consider to take measures to extract values of the Group's data broadcasting business, not excluding the possible disposal, for the best interest of the Group.

David Ji Long Fen
Chairman

26 March 2004

Biographical Details in Respect of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. David Ji Long Fen, aged 51, is the chairman of the Company. He is responsible for the formulation of corporate strategy and business direction of the Group. 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. Ancle Hsu Ann Keh, aged 42, is responsible for management and operation of the Group. 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.

Professor Kou Ji Song, aged 56, is the founder of the Group. He is a professor and a supervisor to Ph.D. candidates and a member of the Chinese People's Political Consultative Conference. He is currently the vice-chancellor of Tianjin University and the chairman of Tianjin Tianda Tiancai Co., Ltd. ("Tianda Tiancai") (formerly known as Genius Co., Ltd.). He was the head of the Research Institute of System Engineering and the dean of the School of Management of Tianjin University before being appointed the vice-chancellor. He obtained a Ph.D. degree in systems engineering from Tianjin University. He is the brother-in-law of Mr. Wang Guang Xin.

Ms. Bu Dong Mei, aged 49, is one of the founding staff members of the Group and is responsible for the general management and operation of the Group. Before joining the Group in 1997, she worked for Tianjin University as a senior engineer and as a manager of Tianjin University Industrial Development Company. She had 16 years' experience in research and marketing.

Ms. Alice Hsu Chu Yun, aged 41, is responsible for financial management of the Group. 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 47, 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. He resigned as a director with effect from 26 September 2003.

EXECUTIVE DIRECTORS (Continued)

Professor Li Min Qiang, aged 38, is one of the founding staff members of the Group and is responsible for research and development of new products. He is a professor and the head of Department of Management Information Systems of the School of Management of Tianjin University. Prior to joining the Group in 1997, he had 10 years' experience in the research and development of information systems. He obtained a Ph.D. degree in systems engineering from Tianjin University. He resigned as a director with effect from 30 June 2003.

Mr. Wang Guang Xin, aged 46, is responsible for the production and general administration of the Group and is also the compliance officer of the Company for the purpose of the GEM Listing Rules with effect from 26 April 2002. Prior to joining the Group, he had been the department manager of Tianda Tiancai since 1993. He is the brother-in-law of Professor Kou Jisong. He resigned as a director and the compliance officer with effect from 30 June 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Shan Hai, aged 64, is an independent non-executive director appointed by the Company in January 2001. He graduated from the People's University of China. He had worked for the Tianjin Municipal Government for over 20 years as an official in the Policy Research Office and as the vice director of Tianjin Committee for Economic System Reform of Tianjin Municipality. He joined the Tianjin Securities Regulatory Office in 1995 and had been its director before his retirement in July 1999.

Mr. Wang Fu Sun, aged 71, is an independent non-executive director appointed by the Company in January 2001. He had worked for the PRC government for over 30 years and had held positions in the Ministry of Foreign Affairs and the State Education Commission.

SENIOR MANAGEMENT

Mr. Shum Shing Kei, aged 32, is the group financial controller and company secretary of the Company. He obtained a Master's degree in financial management from the University of London, the United Kingdom. He is also an associate member of the Hong Kong Society of Accountants. Prior to joining the Group in March 2002, he had 8 years' experience in auditing and accounting and had worked for an international accounting firm.

Mr. Lo Shiu Hung, aged 63, is the general manager of Tianjin AVD Electron Co., Ltd. Prior to joining the Group in October 2000, he has got extensive experiences in the area of digital information technology.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 54.

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

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	Year ended 31 December				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (Note)
TURNOVER	180,750	111,566	6,036	25,259	12,559
Cost of sales	(171,509)	(111,018)	(7,133)	(24,409)	(10,023)
Gross profit/(loss)	9,241	548	(1,097)	850	2,536
Other revenue	246	278	798	1,333	8
Selling and distribution costs	-	(366)	(769)	(756)	(1,014)
Administrative expenses	(7,694)	(5,245)	(4,772)	(6,667)	(1,130)
Other operating income/ (expenses)	14	136	(8,796)	(1,953)	(250)
OPERATING PROFIT/(LOSS) BEFORE TAX	1,807	(4,649)	(14,636)	(7,193)	150
Tax	(44)	-	-	-	-
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	1,763	(4,649)	(14,636)	(7,193)	150
Minority interests	(461)	643	3,350	1,199	(134)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	1,302	(4,006)	(11,286)	(5,994)	16

REPORT OF THE DIRECTORS

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2003 HK\$'000	31 December			
		2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000 (Note)
TOTAL ASSETS	89,884	27,766	32,453	47,274	5,693
TOTAL LIABILITIES	(72,002)	(5,570)	(5,608)	(4,396)	(3,369)
MINORITY INTERESTS	-	(5,599)	(6,242)	(10,971)	(786)
	17,882	16,597	20,603	31,907	1,538

Note:

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

FIXED ASSETS

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 20 and 21 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2003, the Company did not have any reserves available for distribution, other than the Company's share premium account, in the amount of approximately HK\$28,537,000, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 99% of the total sales for the year and sales to the largest customer included therein amounted to approximately 58%. Purchases from the Group's five largest suppliers accounted for approximately 99% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 79%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. David Ji Long Fen (<i>Chairman</i>)	(appointed on 30 June 2003)
Mr. Anle Hsu Ann Keh	(appointed on 30 June 2003)
Professor Kou Ji Song	
Ms. Bu Dong Mei	
Ms. Alice Hsu Chu Yun	(appointed on 30 June 2003)
Mr. Stuart Blake	(appointed on 30 June 2003 and resigned on 26 September 2003)
Professor Li Min Qiang	(resigned on 30 June 2003)
Mr. Wang Guang Xin	(resigned on 30 June 2003)

Independent non-executive directors:

Mr. Li Shan Hai
Mr. Wang Fu Sun

Subsequent to the balance sheet date, on 1 January 2004, Ms. Bu Dong Mei resigned as a director of the Company.

In accordance with clause 86 of the Company's bye-laws, Mr. Anle Hsu Ann Keh and Ms. Alice Hsu Chu Yun will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

REPORT OF THE DIRECTORS

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Save as Professor Kou Ji Song and Ms. Bu Dong Mei, executive directors have not entered into service contracts with the Company. Professor Kou Ji Song and Ms. Bu Dong Mei entered into service contracts with the Company for a term of two years commencing on 24 January 2000. The contracts shall be continuing thereafter unless and until terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing.

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

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 December 2003, the interests and short positions of the Directors in the ordinary Shares of the Company (the "Shares"), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (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. David Ji Long Fen ("Mr. Ji") (notes 1 and 2)	118,257,340	Interest of a controlled corporation	Corporate	37.19
	47,700,000	Beneficial owner	Personal	15.00
Mr. Anle Hsu Ann Keh ("Mr. Hsu") (note 1)	118,257,340	Interest of a controlled corporation	Corporate	37.19
Ms. Bu Dongmei	15,900,000	Beneficial owner	Personal	5.00

Notes:

- Apex Digital Inc., ("Apex Digital") is beneficially owned as to 65% by Mr. Ji and 35% by United Delta Inc., ("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 118,257,340 shares owned by Apex Digital.
- In addition to Mr. Ji's deemed interest in the 118,257,340 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 165,957,340 shares.

Save as disclosed in this paragraph, as at 31 December 2003, 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.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate. No options have been granted to the directors up to the date of this report.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to any Director or chief executive of the Company, as at 31 December 2003, 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 (note 1)	Beneficial owner	118,257,340	37.19
United Delta (note 1)	Interest of a controlled corporation	118,257,340	37.19
Mr. Ji (notes 1 and 2)	Interest of a controlled corporation	118,257,340	37.19
Mr. Hsu (note 1)	Beneficial owner	47,700,000	15.00
	Interest of a controlled corporation	118,257,340	37.19
Ms. Liu Ruying (note 3)	Family interest	165,957,340	52.19
Ms. Susan Chang (note 4)	Family interest	118,257,340	37.19
Mr. Xu Gaohui	Beneficial owner	22,350,000	7.03
Mr. Mark Lau	Beneficial owner	15,900,000	5.00
Ms. Bu Dongmei	Beneficial owner	15,900,000	5.00
Mr. Guo Hui Qin (note 5)	Family interest	15,900,000	5.00

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY (Continued)

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 118,257,340 Shares owned by Apex Digital.
- (2) In addition to Mr. Ji's deemed interest in the 118,257,340 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 165,957,340 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 165,957,340 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 118,257,340 Shares in which Mr. Hsu is interested.
- (5) Mr. Guo Hui Qin is the spouse of Ms. Bu Dongmei and, under section 316 of the SFO, is therefore deemed to be interested in all 15,900,000 Shares in which Ms. Bu Dongmei is interested.

Save as disclosed above, as at 31 December 2003, 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.

COMPETING INTEREST

Apex Digital was founded by Mr. Ji and Mr. Hsu, the executive directors of the Company, 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. Apex Digital is principally engaged in the wholesaling business of consumer home electronics items under the name of "APEX Digital".

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on GEM) had an interest in a business which competes or may compete with the business of the Group during the period under review.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, the Company complied with rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures, throughout the accounting period covered by the annual report.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

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

ON BEHALF OF THE BOARD

David Ji Long Fen

Chairman

Hong Kong
26 March 2004

Report of the Auditors

To the members

China Data Broadcasting Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
Hong Kong
26 March 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
TURNOVER	5	180,750	111,566
Cost of sales		<u>(171,509)</u>	<u>(111,018)</u>
Gross profit		9,241	548
Other revenue	5	246	278
Selling and distribution costs		–	(366)
Administrative expenses		(7,694)	(5,245)
Other operating income		<u>14</u>	<u>136</u>
OPERATING PROFIT/(LOSS) BEFORE TAX	6	1,807	(4,649)
Tax	9	<u>(44)</u>	<u>–</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		1,763	(4,649)
Minority interests		<u>(461)</u>	<u>643</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>1,302</u>	<u>(4,006)</u>
EARNINGS/(LOSS) PER SHARE	11		
Basic		<u>0.41 cents</u>	<u>(1.26) cents</u>
Diluted		<u>0.40 cents</u>	<u>N/A</u>

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	12	754	294
Intangible assets	13	28	138
		<u>782</u>	<u>432</u>
CURRENT ASSETS			
Inventories	15	–	320
Trade and bills receivables	16	78,468	397
Prepayments, deposits and other receivables		342	251
Pledged deposits	17	2,134	–
Cash and cash equivalents	17	8,158	26,366
		<u>89,102</u>	<u>27,334</u>
CURRENT LIABILITIES			
Trade and bills payables	18	66,482	182
Tax payable		44	–
Other payables and accruals		5,331	5,241
Amounts due to related companies	19	145	147
		<u>72,002</u>	<u>5,570</u>
NET CURRENT ASSETS		<u>17,100</u>	<u>21,764</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,882</u>	<u>22,196</u>
MINORITY INTERESTS		<u>–</u>	<u>5,599</u>
		<u>17,882</u>	<u>16,597</u>
CAPITAL AND RESERVES			
Issued capital	20	7,950	7,950
Reserves	22	9,932	8,647
		<u>17,882</u>	<u>16,597</u>

David Ji Long Fen
Director

Ancle Hsu Ann Keh
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Total equity at 1 January		16,597	20,603
Exchange realignment	22	(17)	—
Exchange losses not recognised in the profit and loss account		(17)	—
Net gains/(losses) for the year attributable to shareholders	22	1,302	(4,006)
Total equity at 31 December		<u>17,882</u>	<u>16,597</u>

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		1,807	(4,649)
Adjustments for:			
Depreciation	6	186	147
Interest income	5	(22)	(245)
Loss on disposal of fixed assets	6	14	1
Loss on written off of fixed assets	6	16	2
Impairment of fixed assets	6	-	53
Amortisation of an intangible asset	6	110	110
Provision for slow-moving inventories	6	-	1,474
Provision for prepayments, deposits and other receivables	6	-	15
Write back of provision for doubtful debts	6	-	(290)
Write back of provision for slow-moving inventories	6	(47)	-
Operating profit/(loss) before working capital changes		2,064	(3,382)
Decrease in inventories		367	1,085
Increase in trade and bills receivables		(78,071)	(40)
Decrease/(increase) in prepayments, deposits and other receivables		(91)	53
Increase/(decrease) in trade and bills payables		66,300	(161)
Increase in other payables and accruals		90	208
Decrease in amounts due to related companies		(2)	(85)
Cash used in operations		(9,343)	(2,322)
Interest received	5	22	245
Net cash outflow from operating activities		(9,321)	(2,077)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	12	(1,072)	(16)
Proceeds from disposal of fixed assets		394	-
Decrease/(increase) in time deposits with original maturity of more than three months		(56)	13,649
Increase in pledged deposits	17	(2,134)	-
Net cash inflow/(outflow) from investing activities		(2,868)	13,633

Continued/.....

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Return of capital to a minority shareholder		<u>(6,060)</u>	<u>–</u>
Net cash outflow from financing activities		<u>(6,060)</u>	<u>–</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(18,249)	11,556
Cash and cash equivalents at beginning of year			
		26,366	14,810
Effect of foreign exchange rate changes, net			
		<u>(15)</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		<u>8,102</u>	<u>26,366</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	8,097	26,097
Time deposits with original maturity of less than three months when acquired	17	<u>5</u>	<u>269</u>
		<u>8,102</u>	<u>26,366</u>

Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	<u>17,942</u>	<u>15,910</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		207	194
Cash and cash equivalents	17	<u>202</u>	<u>1,037</u>
		<u>409</u>	<u>1,231</u>
CURRENT LIABILITIES			
Other payables and accruals		469	542
Amount due to a related company	19	<u>-</u>	<u>2</u>
		<u>469</u>	<u>544</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(60)</u>	<u>687</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>17,882</u>	<u>16,597</u>
CAPITAL AND RESERVES			
Issued capital	20	<u>7,950</u>	<u>7,950</u>
Reserves	22	<u>9,932</u>	<u>8,647</u>
		<u>17,882</u>	<u>16,597</u>

David Ji Long Fen
Director

Ancle Hsu Ann Keh
Director

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The head office and principal place of business of China Data Broadcasting Holdings Limited is located at 2919 E. Philadelphia St., Ontario, CA 91761, United States of America.

During the year, the Group was involved in the following principal activities:

- manufacture and sale of data broadcasting hardware and software
- provision of data broadcasting and related services
- the trading of consumer electronic products and the related parts and components, including digital versatile disc ("DVD") players

In the prior year, the Group's trading activities focused solely on the trading of parts and components of DVD players.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements and include a reconciliation between the accounting profit and the tax expenses for the year.

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 2003. The results of subsidiaries acquired or disposal of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of an outside shareholder in the results and net assets of a Company's subsidiary.

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

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 assets

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% – 20%
Leasehold improvements	Over the shorter of the lease terms or 20%

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital reserve

Capital reserve represents the excess of the Group's interest in the fair values ascribed to the identifiable net assets of the data broadcasting business and the Technology over the consideration paid by the Group pursuant to a Group reorganisation (the "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 (the "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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, 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 accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling 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 into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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;
- (iii) commission income, when the goods imported on behalf of the customer are sold; and
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Pension schemes

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 MPF 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.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a fixed percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Share option 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.

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.

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION

Segment information is presented by way of two 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 consumer electronic products and the related parts and components;
- (b) the manufacture and sale of the data broadcasting hardware and software; and
- (c) the provision of data broadcasting and related services.

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

No intersegment sales and transfers were transacted during the year (2002: Nil).

4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Trading of consumer electronic products and the related parts and components		Manufacture and sale of data broadcasting hardware and software		Provision of data broadcasting and related services		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>179,715</u>	<u>108,681</u>	<u>388</u>	<u>1,514</u>	<u>647</u>	<u>1,371</u>	<u>180,750</u>	<u>111,566</u>
Segment results	<u>9,316</u>	<u>1,875</u>	<u>(118)</u>	<u>(1,246)</u>	<u>43</u>	<u>194</u>	<u>9,241</u>	<u>823</u>
Interest income and unallocated gains							246	278
Unallocated corporate expenses							(7,680)	(5,750)
Operating profit/(loss) before tax							1,807	(4,649)
Tax							(44)	-
Profit/(loss) before minority interests							1,763	(4,649)
Minority interests							(461)	643
Net profit/(loss) from ordinary activities attributable to shareholders							<u>1,302</u>	<u>(4,006)</u>

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Group

	Trading of consumer electronic products and the related parts and components		Manufacture and sale of data broadcasting hardware and software		Provision of data broadcasting and related services		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	78,271	-	197	717	15	23	78,483	740
Unallocated assets	-	-	-	-	-	-	11,401	27,026
Total assets	78,271	-	197	717	15	23	89,884	27,766
Segment liabilities	66,242	-	40	36	240	185	66,522	221
Unallocated liabilities	-	-	-	-	-	-	5,480	5,349
Total liabilities	66,242	-	40	36	240	185	72,002	5,570
Other segment information:								
Amortisation of an intangible asset	-	-	110	110	-	-	110	110
Impairment of fixed assets	-	-	-	-	-	-	-	53
Depreciation	-	-	-	-	-	-	186	147
Provision for prepayments, deposits and other receivables	-	-	-	15	-	-	-	15
Write back of provision for doubtful debts	-	-	-	(290)	-	-	-	(290)
Write back of provision for slow-moving inventories	-	-	(47)	-	-	-	(47)	-
Capital expenditure	-	-	-	-	-	-	1,072	16

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments:

Group

	Hong Kong		Mainland China		United States of America		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>-</u>	<u>-</u>	<u>36,235</u>	<u>111,566</u>	<u>144,515</u>	<u>-</u>	<u>180,750</u>	<u>111,566</u>
Other segment information:								
Segment assets	<u>88,126</u>	<u>27,026</u>	<u>1,758</u>	<u>740</u>	<u>-</u>	<u>-</u>	<u>89,884</u>	<u>27,766</u>
Capital expenditure	<u>404</u>	<u>-</u>	<u>668</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>1,072</u>	<u>16</u>

Notes to Financial Statements

31 December 2003

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:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of consumer electronic products and the related parts and components	179,715	108,681
Sale of data broadcasting hardware and software	388	1,514
Income from the provision of data broadcasting and related services	647	1,371
	<u>180,750</u>	<u>111,566</u>
Other revenue		
Commission income	206	–
Interest income	22	245
Others	18	33
	<u>246</u>	<u>278</u>

6. OPERATING PROFIT/(LOSS) BEFORE TAX

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

	2003 HK\$'000	2002 <i>HK\$'000</i>
Cost of inventories sold	170,905	109,841
Cost of services provided	604	1,177
Depreciation	186	147
Amortisation of an intangible asset*	110	110
Research and development costs**	1,251	86
Minimum lease payments under operating leases in respect of land and buildings	236	135
Auditors' remuneration	398	398
Staff costs (excluding directors' remuneration (note 7)):		
Salaries and related staff costs	1,858	1,203
Pension scheme contributions	61	131
	1,919	1,334
Loss on disposal of fixed assets	14	1
Loss on written off of fixed assets	16	2
Impairment of fixed assets	-	53
Provision for slow-moving inventories	-	1,474
Provision for prepayments, deposits and other receivables	-	15
Exchange losses, net	10	4
Write back of provision for doubtful debts	-	(290)
Interest income	(22)	(245)
Write back of provision for slow-moving inventories	(47)	-

* The amortisation of an intangible asset 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\$649,000 (2002: HK\$65,000) which are also included in staff costs as disclosed above.

Notes to Financial Statements

31 December 2003

7. DIRECTORS' REMUNERATION

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

	2003 HK\$'000	Group 2002 HK\$'000
Fees	<u>40</u>	<u>40</u>
Other emoluments:		
Salaries and allowances	360	626
Pension scheme contributions	<u>-</u>	<u>14</u>
	<u>360</u>	<u>640</u>
	<u>400</u>	<u>680</u>

Two of the existing executive directors received emoluments of HK\$120,000 (2002: HK\$120,000) and HK\$120,000 (2002: HK\$120,000) and the remaining three existing executive directors received nil emoluments for the year ended 31 December 2003 (2002: Nil).

The one executive director who appointed and resigned during the year received nil emoluments for the year ended 31 December 2003 (2002: Nil).

The two executive directors who resigned during the year received emoluments of HK\$60,000 (2002: HK\$120,000) and HK\$60,000 (2002: HK\$120,000) for the year ended 31 December 2003.

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2003 analysed on an individual basis were as follows: HK\$20,000 (2002: HK\$20,000) and HK\$20,000 (2002: 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 during the year included two (2002: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2002: three) non-director, highest paid employees for the year are as follows:

	2003 HK\$'000	Group 2002 HK\$'000
Salaries and allowances	1,018	711
Pension scheme contributions	12	21
	<u>1,030</u>	<u>732</u>

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

	2003	Number of employees 2002
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>

Notes to Financial Statements

31 December 2003

9. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

	2003 HK\$'000	2002 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	<u>44</u>	<u>–</u>

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiary are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates are, as follows:

Group – 2003

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>3,565</u>		<u>(1,758)</u>		<u>1,807</u>	
Tax at the statutory tax rate	624	17.5	(580)	(33.0)	44	2.4
Lower tax rate for specific provinces	–	–	369	21.0	369	20.4
Income not subject to tax	(4)	(0.1)	–	–	(4)	(0.2)
Expenses not deductible for tax	860	24.1	8	0.5	868	48.1
Profit not subject to tax	(1,436)	(40.3)	–	–	(1,436)	(79.5)
Tax effect of unused tax losses not recognised	–	–	203	11.5	203	11.2
Tax charge at the Group's effective rate	<u>44</u>	<u>1.2</u>	<u>–</u>	<u>–</u>	<u>44</u>	<u>2.4</u>

9. TAX (Continued)

Group – 2002

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(2,504)</u>		<u>(2,145)</u>		<u>(4,649)</u>	
Tax at the statutory tax rate	(401)	(16.0)	(708)	(33.0)	(1,109)	(23.9)
Lower tax rate for specific provinces	-	-	451	21.0	451	9.7
Income not subject to tax	(280)	(11.2)	-	-	(280)	(6.0)
Expenses not deductible for tax	678	27.1	155	7.2	833	17.9
Profit not subject to tax	3	0.1	-	-	3	0.1
Tax effect of unused tax losses not recognised	<u>-</u>	<u>-</u>	<u>102</u>	<u>4.8</u>	<u>102</u>	<u>2.2</u>
Tax charge at the Group's effective rate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Under the Income Tax Law of the PRC, the Company's subsidiary, Tianjin AVD Electron Co., Ltd. ("Tianjin AVD") is subject to state income tax of 24% 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.

The Group has tax losses arising in the People's Republic of China of HK\$2,632,000 that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiary that have been loss-making for some time.

Notes to Financial Statements

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10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$1,285,000 (2002: net loss of HK\$4,006,000).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$1,302,000 (2002: net loss of HK\$4,006,000), and the weighted average of 318,000,000 (2002: 318,000,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$1,302,000. The weighted average number of ordinary shares used in the calculation is the 318,000,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation; and the weighted average of 5,929,549 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

Diluted loss per share amounts for the year ended 31 December 2002 has not been disclosed as no diluting events existed during that year.

12. FIXED ASSETS

Group

	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	784	–	784
Additions	780	292	1,072
Disposals/written off	(616)	–	(616)
Exchange realignment	(3)	–	(3)
At 31 December 2003	945	292	1,237
Accumulated depreciation and impairment:			
At beginning of year	490	–	490
Provided during the year	174	12	186
Disposals/written off	(139)	–	(139)
Write off of impairment provision	(53)	–	(53)
Exchange realignment	(1)	–	(1)
At 31 December 2003	471	12	483
Net book value:			
At 31 December 2003	474	280	754
At 31 December 2002	294	–	294

Notes to Financial Statements

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13. INTANGIBLE ASSETS

Group

	<i>HK\$'000</i>
Cost:	
At beginning of year and at 31 December 2003	3,631
Accumulated amortisation:	
At beginning of year	3,493
Provided during the year	110
At 31 December 2003	3,603
Net book value:	
At 31 December 2003	28
At 31 December 2002	138

14. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	1,082	1,082
Due from subsidiaries	22,402	26,186
	23,484	27,268
Provision for impairment	(1,082)	(1,082)
Provision for amounts due from subsidiaries	(4,460)	(10,276)
	17,942	15,910

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment. Included therein are amounts due from subsidiaries aggregating HK\$22,402,000 (2002: HK\$26,186,000), in respect of balances which, although technically currently repayable under the original terms of the transactions giving rise thereto, have been deferred or subordinated for the longer term and are therefore classified as non-current.

14. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Verified Solutions Group Limited ("Verified Solutions")	British Virgin Islands	US\$10,000	100	–	Investment holding
Tianjin AVD – note (i)	PRC	US\$2,400,000	–	70	Provision of data broadcasting services and sale of related hardware and software
Apex Digital Inc. Limited – note (ii)	Hong Kong	HK\$2	–	100	Trading of consumer electronic products and the related parts and components

Notes:

- (i) Tianjin AVD is registered as a Sino-foreign owned enterprise under the PRC law.

On 22 January 2003, Tianjin AVD completed a capital reduction and its issued capital was, thereafter, reduced 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 Tianjin Tianda Tiancai Co., Ltd. ("Tianda Tiancai"), in proportion to their shareholdings.

- (ii) Newly incorporated during the year.

Notes to Financial Statements

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15. INVENTORIES

	2003 HK\$'000	Group 2002 HK\$'000
Raw materials	-	120
Work in progress	-	73
Finished goods	-	127
	<u>-</u>	<u>320</u>

No carrying amount of inventories was carried at net realisable value included in the above balances as at the balance sheet date.

16. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one month, extending up to three 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:

	2003 HK\$'000	Group 2002 HK\$'000
Within 3 months	7,640	335
4 to 6 months	-	82
7 to 12 months	-	-
Over 1 year	1,475	1,266
	<u>9,115</u>	<u>1,683</u>
Less: Provision for doubtful debts	<u>(1,286)</u>	<u>(1,286)</u>
	7,829	397
Bills receivables	<u>70,639</u>	<u>-</u>
	<u>78,468</u>	<u>397</u>

Bills receivables have maturity dates within two months.

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cash and bank balances	8,097	26,097	141	768
Time deposits	2,195	269	61	269
	<u>10,292</u>	<u>26,366</u>	<u>202</u>	<u>1,037</u>
Less: Pledged deposits	2,134	–	–	–
Time deposit with original maturity of more than three months	56	–	56	–
	<u>8,102</u>	<u>26,366</u>	<u>146</u>	<u>1,037</u>

18. TRADE AND BILLS PAYABLES

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

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 3 months	212	182
Over 1 year	27	–
	<u>239</u>	<u>182</u>
Bills payables	66,243	–
	<u>66,482</u>	<u>182</u>

Bills payables have maturity dates within two months.

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

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

Notes to Financial Statements

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20. SHARE CAPITAL

Shares

	Company	
	2003 HK\$'000	2002 HK\$'000
Authorised: 1,200,000,000 ordinary shares of HK\$0.025 each	<u>30,000</u>	<u>30,000</u>
Issued and fully paid: 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

On 11 January 2000, the Company approved the share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to full-time employees ("Employees") of the Company and its subsidiaries (including executive directors of the Company and its subsidiaries) to subscribe for shares in the Company. The scheme became effective upon the listing of the Company's shares on the GEM on 24 January 2000.

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

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

21. SHARE OPTION SCHEME (Continued)

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 2003	Granted/ (exercised) during the year	At 31 December 2003			
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 2002	28,537	885	58	307	676	(17,810)	12,653
Net loss for the year	-	-	-	-	-	(4,006)	(4,006)
At 31 December 2002 and at 1 January 2003	28,537	885	58	307	676	(21,816)	8,647
Exchange realignment	-	-	(17)	-	-	-	(17)
Net profit for the year	-	-	-	-	-	1,302	1,302
At 31 December 2003	28,537	885	41	307	676	(20,514)	9,932

Notes to Financial Statements

31 December 2003

22. RESERVES (Continued)

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 2002	28,537	885	(16,769)	12,653
Net loss for the year	—	—	(4,006)	(4,006)
At 31 December 2002 and 1 January 2003	28,537	885	(20,775)	8,647
Net profit for the year	—	—	1,285	1,285
At 31 December 2003	<u>28,537</u>	<u>885</u>	<u>(19,490)</u>	<u>9,932</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.

Further details about the capital reserves are included in note 3 to the financial statements.

23. 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 24 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, on 10 July 2003, the supplier made a further appeal to the People's Court of Tianjin. On the same date, the People's Court of Tianjin withdrew the previous judgement made by the District Court on 24 March 2003. In the opinion of the directors, the claim has no material impact to the Group and no provision in respect of the above claim has been made in these financial statements.

24. 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 one to two years.

At 31 December 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	444	141	435	84
In the second to fifth years, inclusive	313	84	313	84
	<u>757</u>	<u>225</u>	<u>748</u>	<u>168</u>

25. COMMITMENTS

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

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26. RELATED PARTY TRANSACTIONS

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

		Group	
	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
Rentals paid to Tianda Tiancai, a shareholder of Tianjin AVD	<i>(i)</i>	44	71
Printing charges paid to Tianda Tiancai	<i>(i)</i>	-	2
Sale of raw materials to Tianda Tiancai	<i>(ii)</i>	-	16
Sale of parts and components of DVD players to Tianda Tiancai	<i>(iii)</i>	-	108,681
		<u> </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. No technical consultancy services were provided by the Group to Tianda Tiancai for the year ended 31 December 2002. The sale of parts and components of DVD players to Tianda Tiancai are determined on a cost plus basis at a margin of approximately 2%.

On 31 December 2002, the Agreement expired and has not been renewed.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.