



CHINA DATA  
BROADCASTING



ANNUAL REPORT 2000

二零零零年年報

**CHINA DATA BROADCASTING HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

• For identification only

**中華數據廣播控股有限公司\***

(於百慕達註冊成立之有限公司)

• 僅供識別



## **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**

No. 3 Hua Tian Road  
Huayuan Industry Area  
Tianjin High-Tech Industry Park  
Tianjin  
PRC

**Hong Kong liaison office**

16th Floor,  
Hing Yip Commercial Centre,  
272-284 Des Voeux Road Central,  
Hong Kong

**Web Site**

<http://www.databroadcasting.com.hk>

**E-mail Address**

lobson@databroadcasting.com.hk

**Compliance officer**

Mr. YAO Xiao Dong

**Qualified accountant**

Mr. CHAI Chi Man *FHKSA FCCA*

**Company secretary**

Mr. CHAI Chi Man *FHKSA FCCA*

**Authorised representatives**

Prof. KOU Jisong  
Mr. Chai Chi Man *FHKSA FCCA*

**Members of the audit committee**

Mr. LI Shan Hai  
Mr. WANG Fu Sun  
Prof. LI Min Qiang

**Bermuda resident representative**

Mr. John Charles Ross COLLIS

**Bermuda deputy resident representative**

Mr. Anthony Devon WHALEY

**Stock Exchange**

Growth Enterprise Market of  
The Stock Exchange of Hong Kong Limited



## CORPORATE INFORMATION

<b>Stock Code</b>	8016
<b>Sponsor</b>	Oriental Patron Asia Limited <i>GEM-Registered Sponsor</i> 42nd Floor, COSCO Tower 183 Queen's Road Central Hong Kong
<b>Auditors</b>	Ernst & Young <i>Certified Public Accountants</i> 15th Floor, Hutchison House 10 Harcourt Road Central, Hong Kong
<b>Legal Advisers</b>	Richards Butler <i>International Law Firm</i> 20th Floor, Alexandra House 16-20 Chater Road Hong Kong
<b>Bermuda principal share registrar and transfer office</b>	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
<b>Hong Kong branch share registrar and transfer office</b>	Hong Kong Registrars Limited 2/F Vicwood Plaza 199 Des Voeux Road Central Hong Kong
<b>Principal banker</b>	International Bank of Asia Limited Shop 2, G/F, Wu Chung House 213 Queen's Road East Hong Kong



## CHAIRMAN'S STATEMENT

The year 2000 is an important period in the development history of the Group. On 24 January 2000, the Company was successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM"), representing the first company listed on the GEM in the new millennium.

The Group is principally engaged in the business of data broadcasting in the PRC and its main activities include the research, development and sales of data broadcasting hardware and software, the related system integration, technical support and consultancy service, the planning, sourcing and production of multimedia contents for data broadcasting, and the sale of software.

### BUSINESS REVIEW

The year 2000 is a difficult year for the data broadcasting industry. The ever-changing technological development, the influence of the government policies and also the entry of new competitors together created an uncertain market with intense competition. The Group managed to record continued turnover growth this year despite of the difficult market condition.

One of the Group's important service contents is the real-time stock quotation for the PRC stock market. As a key player in the industry, the Shanghai and Shenzhen Stock Exchanges have both appointed the Group to assist them to develop their securities information business operations through the Group's data broadcasting technologies. By virtue of the appointment agreements, the Group secures an authenticated source of its service contents, which lay a very good business foundation for the Group to increase its market share through expanding its alliance with TV network operators.

The management firmly believes that technological development capability is crucial to the success of the Group. In order to further enhance its capability, the Group cooperates with Nexus, a reputable Swedish company, for the development of Conditional Access system ("CA system"). This CA system will play an important role in the protection of the Group's service contents from unauthorised use.

To further enrich the Group's service contents, it signed cooperative agreements with 北京景山遠程教育網絡技術有限公司 ("Beijing Jian Shan Distance Education Net Limited") and also 北京國聯新世紀網絡教育有限公司 ("Beijing Guolian New Era Network Education Co., Limited"), which provide rich and valuable education contents for the Group's distance education programme.

During the year, the Group successfully developed the stock analysis software model I. This is catered for the market needs and will increase the attractiveness of the Group's products to its customers.

The Group was invited by the relevant authority of the PRC government to participate in the National Standard Drafting Committee for the data broadcasting industry. As the National Standard has yet to be released, the Group adopted a prudent attitude towards it 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 business activities has affected the Group's achievement in certain of its business objectives set out in the Prospectus dated 17 January 2000.



## CHAIRMAN'S STATEMENT

### RESEARCH AND DEVELOPMENT

The management of the Group believes that research and development is important for the development of the Group. Accordingly, the Group continued to focus on the development of those performing projects, development of information technology and related techniques, product and service, and has achieved significant progress in certain aspects of the data broadcasting technology.

In respect of systems, the Group succeeded in the development and launching of the Full Channel ("FC") data broadcasting transmission modules Model III to Model V. At the same time, the Group also obtained results in the development of new generation data broadcasting encryption technology and high-speed broadband data broadcasting technology.

In respect of products, the successful development and launching of FC data broadcasting plug-in boards model VI and VII make it possible for the Group's products to have more powerful functions and at lower costs, which improved the competitiveness of its products over other similar products.

In respect of application software, the Group succeeded in developing the fourth generation multimedia data broadcasting access software and the second generation multimedia set-top box application software, and in accordance with the market requirements, the Group succeeded in developing the first generation intelligent stock analysis software.

### FINANCIAL POSITION

Despite facing an uncertain and competitive market, the Group's business grows continuously. Turnover increased drastically by 207% and reached HK\$25 million.

The Group incurred a loss for the year mainly as a result of substantial provisions made on the stock and debtor at the year-end date. The management has adopted a conservative attitude towards the estimated net realizable/recoverable value of the assets concerned and has written down the value of the assets concerned to their respective estimated net realizable/recoverable value. The loss was also due to a written-off of discrepancies found between the stock records and the year-end physical stock take. The management has reviewed and located the origin of the above problems. In order to strengthen control and enhance efficiency of the Group's operations, the Group closed its Shijiazhuang office near the end of the year.

Despite of the provisions made as referred to above, the Group's balance sheet remains strong. The Group's current liabilities amounted to only approximately HK\$4.4 million whereas its cash and bank balances stood at approximately HK\$36.7 million at 31 December 2000. The Group has adequate financial resources to implement its plan for the forthcoming year.



## CHAIRMAN'S STATEMENT

### OUTLOOK

The Group firmly believes that there remains a broad horizon of development and huge market potential in the data broadcasting industry. The Group will continue focusing on the PRC market, and relying on the foundation built in this year, the Group will emphasise on developing highly sophisticated encrypted transmission and reception modules, forming alliance with TV network operators and enriching its service contents to attract more subscribers.

In line with the appointment agreements with the Shanghai and Shenzhen Stock Exchanges (“the Exchanges”), the Group will focus on developing highly sophisticated encrypted transmission and reception modules in order to prohibit any unauthorized use of the stock information disseminated by the Exchanges and hence, ensuring no loss of subscriptions that should be received from our stock contents subscribers. The management envisages that the approximately 50 million PRC stock market participants may provide the Group with a sizeable recurring income.

The management considers that the market for the TV set top box remains difficult in the year 2001 because it is a new form of electronic equipment that is still in its introductory stage. As such, more time is required in order to gain acceptance by the potential customers at large. Accordingly, the Group is not planning to invest substantial resources for the production and development of the TV set top box in the year 2001. Taking the advantage of the Group's representation in the National Standard Drafting Committee for the data broadcasting industry, the Group will carefully plan the launching of its products in order to ensure that they will comply with the National Standard.

The management believes that research and development is important in the long-term development of the Group's business. Accordingly, the Group will continue to invest resources to develop sophisticated products. Focus is on model VI to VIII of the Full Channel transmission modules and the high-speed broadband data broadcasting system basing on the DVB-C technology.

The Group will take advantage of the well-known “Tiancai” brand name and strengthen the Group's sale and after-sale network in order to further enlarge the Group's market share. The Group plans to recruit 100 new authorized distributors in all the major cities of the PRC and conduct vigorous advertisement campaigns in TV, newspapers and magazines in order to achieve the greatest publicity.

The Group will continue to pursue its conservative and highly efficient development strategy. Under the fierce competition in the PRC market, the Group will surpass its competitors by its sophisticated technology and marketing technique. Looking forward, the management believes that under the ever-advancing technological environment, the Group will continue to progress and create the greatest benefits for its shareholders.

**Professor Kou Jisong**

*Chairman*

27 March 2001



## COMPARISON OF BUSINESS PROGRESS

*According to the business objectives as stated in the Prospectus dated 17 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 VI and VII
  
- Target sales volume 120,000 units

Model VI was launched in May 2000. The model VII was also launched in September 2000.

Sold 91,269 units up to 31/12/2000.

The failure to achieve target is due to an unexpected shortage of an essential component for the product. The Group has managed to find a substitute for the component but has already missed part of the sales peak seasons, which affected the target sales volume.

### **Sales of TV set top box**

- Launch financial TV set top box model I to model III
  
- Launch multimedia TV set top box model I and II
  
- Target sales volume
  - Financial 90,000 units
  
  - Multimedia 60,000 units

230 units of Financial TV set top box model I were sold. Financial TV set top box model II and III and multimedia TV set top box have not been launched to market. The reasons are as follows:

1. Set-top box is a new form of electronic equipment that is still in its introductory stage. As such, more time is required in order to gain acceptance by the market.
  
2. As described in our second quarter report, the National Standard is still being drafted, and its release was postponed until 2001. Should any relevant products of the Group not meeting the National Standard, the Group would have to accept return of products within the warranty period (currently being 1 year). In view of this, the Group decided to postpone the launching of its TV set top boxes.

In light of the above, the Group is not planning to invest substantial resources for the production and development of the TV set top box and as such, the Group's 2001 target as set out in the Prospectus may not be met.



## COMPARISON OF BUSINESS PROGRESS

### Sales of software

- Target sales volume 48,000 units Sold 57,991 units up to 31/12/2000.

### Subscription income

- Target accumulated number of subscribers 98,800 subscribers Total number of subscribers was 15,628 as at 31 December 2000. The shortfall was mainly caused by 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) 203 of which are under cooperative agreements 79 Total number of strategically allied TV network operators was 186 of which 22 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 50 new content providers The Group established 12 new content providers during the period. The Group considered that the content itself instead of the number of the content provider is important. In this respect, the Group managed to secure valuable education contents from the Beijing Jian Shan Distance Education Net Limited. ("BJS") and also Beijing Guolian New Era Network Education Co. Limited ("BGN").



## COMPARISON OF BUSINESS PROGRESS

### Marketing

Sales and after sales network.

- Engage 100 new authorised distributors
- Recruited 126 authorised distributors, mainly in large cities and along the coastal region.
- engage 5 authorised distributors to be the sales and after sales representatives of the Group in major cities.
- Engaged 5 authorised distributors to be the sales and after sales services representatives of the Group in major cities, like Tianjin, Beijing, Hangzhou, Nanjing and Shenyang.

### 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 RMB157,000.

### Market research

- Conduct research on market response to TV set top boxes to draw up the Group's sales and marketing program
- Market as well as product compatibility research were done on TV set top boxes based on which the Group drew up its sales and marketing plan. The costs incurred amounted to RM177,000.
- Conduct market research on overseas interactive broad band transmission system to keep abreast of any development in data broadcasting technology
- Focus was made on DVB-C technology in the European countries and also in U.S.A.

### Operation and Production

Transmission modules

- Provide 65 new transmission modules for FC data broadcasting to TV network operators
- Provided 5 new FC 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 100 new transmission modules for VBI data broadcasting to TV network operators
- Provided 86 new VBI data broadcasting modules to TV network operators. The shortfall is because the Group only focused on cooperating with those TV network operators, which had large subscribers base and situated along the coastal region.



## COMPARISON OF BUSINESS PROGRESS

### Reception modules

- |   |   |   |
|---|---|---|
| <ul style="list-style-type: none"> <li>- PC plug-in boards</li> </ul> | <ul style="list-style-type: none"> <li>- 120,000 units</li> </ul> | <ul style="list-style-type: none"> <li>- Approximately 112,000 units of PC plug-in boards produced. See reason under “Sale of PC plug-in boards.”</li> </ul>    |
| <ul style="list-style-type: none"> <li>- TV set top boxes</li> </ul>  |   |   |
| <ul style="list-style-type: none"> <li>- Financial</li> </ul>         | <ul style="list-style-type: none"> <li>- 90,000 units</li> </ul>  | <ul style="list-style-type: none"> <li>- 4,952 units of financial TV set top boxes produced. See reason under “Sales of TV set top box.”</li> </ul>             |
| <ul style="list-style-type: none"> <li>- Multimedia</li> </ul>        | <ul style="list-style-type: none"> <li>- 60,000 units</li> </ul>  | <ul style="list-style-type: none"> <li>- Only 40 units of sample Multimedia TV set top box was produced. See reason under “Sales of TV set top box.”</li> </ul> |

### Contents for data broadcasting

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>- Start to produce distance education contents for 7 subjects of each of the 6 grades of secondary education</li> </ul>                        | <ul style="list-style-type: none"> <li>- Produced distance education contents for 7 subjects of each of the 6 grades of secondary education.</li> </ul> |
| <ul style="list-style-type: none"> <li>- Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers</li> </ul> | <ul style="list-style-type: none"> <li>- New contents were obtained from existing information providers to enrich the Group's contents base.</li> </ul> |

### Research and development

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>- Acquire computer hardware and software for product development</li> </ul>                        | <ul style="list-style-type: none"> <li>- 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 minimal. Costs incurred was RMB290,000.</li> </ul>   |
| <ul style="list-style-type: none"> <li>- Acquire facilities for product testing</li> </ul>  | <ul style="list-style-type: none"> <li>- No cost was made on acquiring facilities for product testing as a result of the cooperation with 2 established companies engaged in the research and development of new set top boxes. These two companies provided the research and development environment sufficient for the purpose, so that the Group did not need to spend a large amount on facilities.</li> </ul> |
| <ul style="list-style-type: none"> <li>- Lease new operating site to accommodate expanding research and development department</li> </ul> | <ul style="list-style-type: none"> <li>- This was not required for reasons as state above.</li> </ul>  |



## COMPARISON OF BUSINESS PROGRESS

### Transmission modules

- Develop FC data broadcasting transmission module model III and V - Succeeded in developing FC data broadcasting transmission module model III. Model V was in the process of development.
- Develop VBI data broadcasting transmission module model VI and VII - Succeeded in developing VBI data broadcasting transmission module model VI and VII.
- Research and develop high speed broadband data broadcasting systems - The work was in progress.

### Reception modules

- Research and develop financial TV set top box model II - The research and development of financial TV set top box model II was in progress. The work was closely followed on the development of the National Standard.
- Research and develop multimedia TV set top box model II - Research and development of multimedia 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 - Succeeded in the research and development of application software for financial TV set top box model I and was launched to market in June this year.
- Succeeded in the development of the stock analysis software model I.



## COMPARISON OF BUSINESS PROGRESS

### Sourcing of contents

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>- Acquire education contents for 7 subjects of each of the 6 grades of secondary education</li> <br/> <li>- Source or acquire new contents from electronic newspapers and magazines publishers and financial information providers</li> </ul> | <ul style="list-style-type: none"> <li>- Acquired education contents for 7 subjects of each of the 6 grades of secondary education from reputable tutors and also cooperated with BJS and BGN to secure a stable source of education contents.</li> <br/> <li>- Obtained new contents from existing electronic newspapers and magazines publishers and financial information providers.</li> </ul> |
|--|--|

### Human resources

Management	5	6	
R & D			
- software	30	7	(see note 1 below)
- hardware	25	9	(see note 1 below)
Information Services	35	10	(see note 2 below)
Sales and Marketing	18	14	
Finance and Administration	3	8	
Total	116	54	

### 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.



## COMPARISON OF BUSINESS PROGRESS

### COMPARISON OF USE OF PROCEEDS

Up to 31 December 2000, the Group had only utilised about HK\$4.3 million of the Placing proceeds. This represents approximately 18% utilisation of the HK\$23.8 million stated in the Prospectus.

The under utilisation is mainly due to:

1. Approximately 60% 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.



## BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Professor Kou Jisong**, aged 53, is the founder of the Group and the chairman of the Company. He is responsible for the formulation of corporate strategy and future business direction of the Group. He is a professor and a supervisor to Ph.D. candidates and a member of the Chinese People's Political Consultative Conference. He is currently the vice-chancellor of Tianjin University and the chairman of Genius Co. Ltd. ("Genius"). 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.

**Ms. Bu Dong Mei**, aged 46, is one of the founding staff members of the Group and is responsible for the general management and operation of the Group. Before joining the Group in 1997, she worked for Tianjin University as a senior engineer and as a manager of Tianjin University Industrial Development Company. She had 15 years' experience in research and marketing. She is a postgraduate in systems engineering of Tianjin University.

**Professor Li Min Qiang**, aged 35, 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 Master's degree in systems engineering from Tianjin University.

**Mr. Yao Xiao Dong**, aged 35, is one of the founding staff members of the Group and is responsible for the Group's market development. He is also the compliance officer of the Company for the purpose of the GEM Listing Rules. Prior to joining the Group in 1997, he had 10 years' experience in the research of economic policy. He obtained a Bachelor of Economics degree from Nankai University.

**Mr. Dong Jian Xin**, aged 34. He 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, he had 9 years' experience in the research and development of information systems. He obtained a Master's degree in systems engineering from Tianjin University.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Li Shan Hai**, aged 61, is an independent non-executive director appointed by the Company in January 2000. 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 Commission 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.



## **BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT**

**Mr. Wang Fu Sun**, aged 68, is an independent non-executive director appointed by the Company in January 2000. 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. Chai Chi Man**, aged 38, is the group financial controller and company secretary of the Company. He is a Certified Public Accountant and obtained a Master's degree in finance and investment from the University of Exeter, the United Kingdom. He is also a fellow member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in September 1999, he had 15 years' experience in auditing and accounting and had worked for an international accounting firm as well as a number of listed companies and sizeable organisations.

**Mr. Wang Guang Xin**, aged 43, is responsible for the production and general administration of the Group. Prior to joining the Group, he had been the department manager of Genius Co., Ltd. since 1993.

**Mr. Ni Yue**, aged 47, has years of experience engaged in financial management, and has worked for the Sino-American Joint Venture Ottis Elevator Company. He joined the Group in 2001 as the manager of the finance department. He holds a Bachelor degree in accounting from the Tianjin Finance College.



## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the Annual General Meeting of China Data Broadcasting Holdings Limited (the "Company") will be held at Room 4201-7 Cosco Tower, 183 Queen's Road Central, Hong Kong on Tuesday, 24th April 2001 at 9:30 a.m. for the purpose of considering and, if thought fit, inter alia, passing the following resolution as an ordinary resolution of the Company:

1. To receive and consider the audited consolidated financial Statements and the reports of the Directors and Auditors for the year ended 31st December, 2000.
2. To re-elect retiring Directors pursuant to the Company's Bye-laws and to authorise the board of directors to fix their remuneration.
3. To re-appoint the auditors of the Company and authorise the Directors to fix their remuneration.
4. To consider as Special Business, and if thought fit, to pass with or without amendments, the following resolutions as an Ordinary Resolution:

**THAT:**

- (A) subject to paragraph (C) below, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements or options which might require the exercise of such power be and is hereby approved generally and unconditionally;
- (B) the approval in paragraph (A) above shall be in addition to any other authorisation given to the Directors of the Company and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted and issued, or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (a) a Rights Issue; or (b) the grant or exercise of any option under the share option scheme of the Company; or (c) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company in force from time to time; or (d) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company, shall not exceed the aggregate of:
  - (i) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution; and



## NOTICE OF ANNUAL GENERAL MEETING

- (ii) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution).

and the authority pursuant to paragraph (A) of this Resolution shall be limited accordingly;

- (D) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company, the Companies Act of the Bermuda or any other applicable law of Bermuda to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their holdings of such shares, subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognized regulatory body or any stock exchange outside Hong Kong.

- 5. As special business, to consider and, if thought fit, to pass the following as an Ordinary Resolution:-

**“THAT:-**

- (A) subject to paragraph (B) below, the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to repurchase its shares in the capital of the Company on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in



## NOTICE OF ANNUAL GENERAL MEETING

accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the Companies Act of Bermuda and all other applicable laws in this regard, be and is hereby approved generally and unconditionally;

- (B) the aggregate nominal amount of shares authorised to be repurchased or agreed conditionally or unconditionally to be repurchased by the Directors of the Company pursuant to the approval in paragraph (A) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date this Resolution and the said approval shall be limited accordingly; and
- (C) for the purposes of this Resolution:-

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:—

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required either by the Bye-laws of Company, the Companies Act of Bermuda or any other applicable law of Bermuda to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.

6. As special business, to consider and, if thought fit, to pass the following as an Ordinary Resolution:-

“THAT conditional upon the passing of Ordinary Resolutions numbered 4 and 5 as set out in the Notice convening this meeting, the aggregate nominal amount of the number of shares in the capital of the Company that shall have been repurchased by the Company after the date thereof pursuant to and in accordance with the said Ordinary Resolution 5 shall be added to the aggregate nominal amount of share capital that may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to the general mandate to allot and issue shares granted to the Directors of the Company by the said Ordinary Resolution 4.”

On behalf of the Board

**Professor Kou Jisong**

*Chairman*

Hong Kong, 27 March 2001



## NOTICE OF ANNUAL GENERAL MEETING

*Notes:*

- i. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
- ii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised.
- iii. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's Branch Registrars in Hong Kong, Hong Kong Registrars Limited of 2/F Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong and in any event not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).
- iv. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.



## REPORT OF THE DIRECTORS

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2000.

### GROUP REORGANISATION AND BASIS OF PRESENTATION

Pursuant to the Group reorganisation (“Reorganisation”) in preparation for the public listing of the Company’s shares, the Company acquired the entire issued share capital of Verified Solutions Group Limited (“Verified Solutions”) on 11 January 2000 and thereby became the holding company of the Group. The shares of the Company have been listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM”) since 24 January 2000. Further details of the Group reorganisation and the basis of presentation of the Group’s financial statements are set out in notes 2, 14 and 16 to the financial statements.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 12 to the financial statements. There were no changes in the nature of the Group’s principal activities during the year.

### SEGMENTAL INFORMATION

The Group’s turnover and contribution to loss from operating activities for the year ended 31 December 2000 were all derived from the People’s Republic of China (the “PRC”). An analysis of the Group’s turnover and contribution to loss from operating activities by principal activity for the year ended 31 December 2000 is as follows:

	<b>Turnover</b> <b>HK\$’000</b>	<b>Contribution</b> <b>to loss from</b> <b>operating</b> <b>activities</b> <b>HK\$’000</b>
By principal activity:		
Sales of data broadcasting hardware and software	23,380	481
Provision of data broadcasting and related services	1,879	369
	<u>25,259</u>	<u>850</u>
Other Group expenses net of other revenue		(8,043)
		<u>(7,193)</u>

### RESULTS AND DIVIDENDS

The Group’s loss for the year ended 31 December 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 53.

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



## REPORT OF THE DIRECTORS

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results of the Group for each of the four years ended 31 December 2000 and the assets and liabilities of the Group as at 31 December 2000 and 31 December 1999.

#### RESULTS

	Year ended 31 December			
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
TURNOVER	25,259	12,559	7,294	293
Cost of sales	(24,409)	(10,023)	(5,770)	(222)
Gross profit	850	2,536	1,524	71
Other revenue	1,333	8	-	-
Selling and distribution costs	(756)	(1,014)	(315)	(12)
Administrative expenses	(6,667)	(1,130)	(480)	(186)
Other operating expenses	(1,953)	(250)	-	-
OPERATING PROFIT/(LOSS) BEFORE TAX	(7,193)	150	729	(127)
Tax	-	-	-	-
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(7,193)	150	729	(127)
Minority interests	1,199	(134)	(219)	38
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(5,994)	16	510	(89)

#### ASSETS AND LIABILITIES

	31 December	
	2000 HK\$'000	1999 HK\$'000
TOTAL ASSETS	47,274	5,693
TOTAL LIABILITIES	(4,396)	(3,369)
MINORITY INTERESTS	(10,971)	(786)
NET ASSETS	31,907	1,538

#### Note:

- The results of the Group for each of the three years 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 on 1 January 1997.



## REPORT OF THE DIRECTORS

### **FIXED ASSETS**

Details of movements in the fixed assets of the Company and the Group are set out in note 10 to the financial statements.

### **SUBSIDIARIES**

Particulars of the Company's subsidiaries 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 since its date of incorporation, together with the reasons therefor, are set out in note 14 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.

### **RESERVES**

Details of movements in the reserves of the Company and the Group are set out in note 15 to the financial statements.

### **DISTRIBUTABLE RESERVES**

At 31 December 2000, the Company did not have any reserves available for distribution. In addition, the Company's share premium account, in the amount of approximately HK\$28,537,000, may be used for distribution in the form of fully paid bonus shares.

### **PENSION SCHEME AND COSTS**

The Group's employees in Hong Kong have joined the mandatory provident fund scheme from 1 December 2000. Employees in the PRC are enrolled in the mandatory central pension scheme operated by the PRC Government. Details of the employer's pension costs charged to the profit and loss account for the year are set out in note 5 to the financial statements.



## REPORT OF THE DIRECTORS

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 38% of the total sales for the year and sales to the largest customer included therein amounted to approximately 13%.

Purchases from the Group's five largest suppliers accounted for approximately 71% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 31%.

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

### DIRECTORS

The directors of the Company during the year were:

*Executive directors:*

Professor Kou Jisong (*Chairman*)

Mr. Dong Jian Xin (*Managing Director*) (ceased to be Managing Director on 27 March 2001)

Professor Li Min Qiang (appointed on 11 January 2000)

Mr. Yao Xiao Dong (appointed on 11 January 2000)

Ms. Bu Dong Mei (appointed on 12 June 2000)

*Independent non-executive directors:*

Mr. Li Shan Hai (appointed on 11 January 2000)

Mr. Andrew Sherrill (appointed on 11 January 2000 and resigned on 25 July 2000)

Mr. Wang Fu Sun (appointed on 11 January 2000)

In accordance with clauses 86 and 87 of the Company's bye-laws, Mr. Dong Jian Xin, Professor Li Min Qiang and Ms. Bu Dong Mei will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's bye-laws.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 14 to 15 of the Annual Report.



## **REPORT OF THE DIRECTORS**

### **EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES**

Details of the directors' emoluments and those of the five highest paid employees in the Group are set out in notes 6 and 7 to the financial statements, respectively.

### **DIRECTORS' SERVICE CONTRACTS**

Each of the executive directors has entered into a service contract with the Company for a term of two years commencing from 24 January 2000, which may be terminated by either party thereto giving to the other not less than six calendar months' prior notice in writing. The notice period shall not expire until after the end of the second year.

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 other than statutory compensation.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Under the terms of the Company's share option scheme approved by the shareholders on 11 January 2000, the board of 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. The scheme became effective upon the listing of the Company's shares on GEM on 24 January 2000. No options have been granted to the directors up to the date of this report.

Apart from the foregoing, and other than in connection with the Reorganisation prior to the Company's initial public offering, at no time during the year 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.



## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES

At 31 December 2000, the interests of the directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Directors	Number of issued ordinary shares of HK\$0.025 each in the Company and nature of interest			
	Personal	Family	Corporate	Other
Mr. Dong Jian Xin	-	-	-	17,190,000
Professor Li Min Qiang	-	-	-	17,190,000
Mr. Yao Xiao Dong	-	-	-	17,190,000

*Note:*

171,900,000 of the Company's shares are held by Ultra Challenge Limited ("Ultra Challenge") which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust include Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong. Each of Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong is deemed to be interested in 17,190,000 shares by virtue of their 10% interest under the trust.

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

### DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party during the year.

### COMPETING INTEREST

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.



## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS

At 31 December 2000, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	%
Ultra Challenge	171,900,000	54.1

The shares in Ultra Challenge 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, Mr. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lian Wen, Mr. Ji Songqiao and Ms. Cai Zhipei.

### CONNECTED TRANSACTIONS

During the year, the Group paid subcontracting fees to a 51% owned subsidiary of Genius Co., Ltd. (“Genius”) for subcontracting work on certain of the Group’s data broadcasting hardware. Genius and its subsidiaries are deemed to be connected persons of the Company for the purpose of the Rules Governing the Listing of Securities on GEM (“GEM Listing Rules”). Further details of the transaction are included in note 18 to the financial statements. The directors are of the opinion that the above connected transactions were entered into in the ordinary and usual course of business of the Group.

In February 2000, Genius had disposed of its 51% interest in Beijing Taslon Science & Technology Development Co., Ltd. (“Taslon”), a company which in the prospectus issued on 17 January 2000, was deemed a connected person. Prior to Genius’ disposal, the Group did not have any transactions with Taslon. Following the disposal of its interests to a third party, in the opinion of the directors, subsequent transactions with Taslon would not constitute connected transactions.

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of the subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the period from 24 January 2000 (date of the listing of the Company’s shares on GEM) to 31 December 2000.



## 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.

The audit committee consisted of three members including Mr. Li Shan Hai, Mr. Andrew Sherrill, both independent non-executive directors, and Professor Li Min Qiang, an executive director. On 25 July 2000, Mr. Andrew Sherrill resigned and Mr. Wang Fu Sun, an independent non-executive director, was appointed to take up the role of Mr. Andrew Sherrill as a member of the audit committee.

Since its establishment, the audit committee has met 5 times with the management and board of directors: (i) to review the Group's quarterly, half yearly and annual financial results; (ii) to review selected aspects of the Group's internal control procedures; (iii) to discuss with the Company's auditors regarding their audit findings; and (iv) to provide advice and recommendations to the board of directors.

### SPONSOR'S INTEREST

As at 31 December 2000, Pacific Top Holding Limited ("PacificTop"), a fellow subsidiary of the Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron"), was interested in 8,100,000 shares of the Company. Save as disclosed herein, none of Oriental Patron, its directors, employees or associates as referred to in Note 3 to rule 6.35 of the GEM Listing Rules had any interests in the share capital of the Company as at 31 December 2000.

Pursuant to the agreement dated 27 September 1999 entered into between the Company and Oriental Patron, Oriental Patron has received and will receive fees for acting as the Company's retained sponsor for the period from 24 January 2000 to 31 December 2003.

### AUDITORS

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

On behalf of the Board

**Professor Kou Jisong**  
*Chairman*

Hong Kong  
27 March 2001



## 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 29 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and 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 2000 and of its loss, and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ERNST & YOUNG**

*Certified Public Accountants*

Hong Kong

27 March 2001



## CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2000

		2000	Period from
	Notes	HK\$'000	18 February 1999
			to 31 December
			1999
			HK\$'000
TURNOVER	4	25,259	8,235
Cost of sales		<u>(24,409)</u>	<u>(6,080)</u>
Gross profit		850	2,155
Other revenue		1,333	8
Selling and distribution costs		(756)	(752)
Administrative expenses		(6,667)	(825)
Other operating expenses		<u>(1,953)</u>	<u>(250)</u>
OPERATING PROFIT/(LOSS) BEFORE TAX	5	(7,193)	336
Tax	8	<u>—</u>	<u>—</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(7,193)	336
Minority interests		<u>1,199</u>	<u>(190)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		<u>(5,994)</u>	<u>146</u>
EARNINGS/(LOSS) PER SHARE	9		
Basic		<u>(1.94) cents</u>	<u>0.08 cent</u>
Diluted		<u>N/A</u>	<u>N/A</u>



## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 December 2000

		2000	Period from 18 February 1999 to 31 December 1999
	Note	HK\$'000	HK\$'000
Exchange differences on translation of the financial statements of foreign entities	15	<u>76</u>	<u>-</u>
Net gains not recognised in the profit and loss account		76	-
Net profit/(loss) for the year/period attributable to shareholders		<u>(5,994)</u>	<u>146</u>
Total recognised gains and losses		<u><u>(5,918)</u></u>	<u><u>146</u></u>



## CONSOLIDATED BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000	1999 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	10	789	684
Intangible asset	11	358	460
		<u>1,147</u>	<u>1,144</u>
<b>CURRENT ASSETS</b>			
Inventories	13	6,050	1,085
Accounts receivable		2,232	576
Prepayments, deposits and other receivables		1,118	253
Cash and bank balances		36,727	2,635
		<u>46,127</u>	<u>4,549</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable		2,226	1,036
Other payables and accruals		1,531	341
Amount due to a director	18	117	376
Amount due to a related party	18	522	1,616
		<u>4,396</u>	<u>3,369</u>
<b>NET CURRENT ASSETS</b>		<u>41,731</u>	<u>1,180</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>42,878</u>	<u>2,324</u>
Minority interests	16(b)	10,971	786
		<u>31,907</u>	<u>1,538</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	14	7,950	200
Reserves	15	23,957	1,338
		<u>31,907</u>	<u>1,538</u>

**Kou Jisong**  
Director

**Bu Dong Mei**  
Director



## CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2000

		2000	Period from 18 February 1999 to 31 December 1999
	Notes	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	16(a)	<b>(14,544)</b>	1,642
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		<u>1,239</u>	<u>8</u>
Net cash inflow from returns on investments and servicing of finance		<u>1,239</u>	<u>8</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		<u>(274)</u>	<u>(100)</u>
Net cash outflow from investing activities		<u>(274)</u>	<u>(100)</u>
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES		<b>(13,579)</b>	1,550
FINANCING ACTIVITIES			
Capital contribution to the Group	16(c)	–	1,085
Proceeds from issue of shares		44,160	–
Share issue expenses		(7,873)	–
Capital contributions from minority shareholders	16(b)	<u>11,384</u>	<u>–</u>
Net cash inflow from financing activities		<u>47,671</u>	<u>1,085</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<b>34,092</b>	2,635
Cash and cash equivalents at beginning of year/period		<u>2,635</u>	<u>–</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		<u><u>36,727</u></u>	<u><u>2,635</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		<u><u>36,727</u></u>	<u><u>2,635</u></u>



## BALANCE SHEET

31 December 2000

	Notes	2000 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Interests in a subsidiary	12	<u>27,037</u>
<b>CURRENT ASSETS</b>		
Prepayments, deposits and other receivables		142
Cash and bank balances		<u>5,239</u>
		<u>5,381</u>
<b>CURRENT LIABILITIES</b>		
Other payables and accruals		<u>511</u>
		<u>511</u>
<b>NET CURRENT ASSETS</b>		<u>4,870</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u><u>31,907</u></u>
<b>CAPITAL AND RESERVES</b>		
Issued capital	14	7,950
Reserves	15	<u>23,957</u>
		<u><u>31,907</u></u>

**Kou Jisong**  
Director

**Bu Dong Mei**  
Director



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. CORPORATE INFORMATION

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

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

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

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

## 2. GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda as an exempted company under the Companies Act on 22 September 1999 with limited liability. On incorporation, the Company had authorised share capital of HK\$100,000 divided into 1,000,000 shares, all of which were issued nil paid on 24 September 1999. Apart from the aforesaid share issue, no other transactions were carried out by the Company for the period from 22 September 1999 to 31 December 1999. Accordingly, the Company did not have any results for the period from 22 September 1999 (date of incorporation) to 31 December 1999 and did not have any assets, liabilities and shareholders' equity as at 31 December 1999.

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 ("GEM"), the Company acquired from its holding company the entire issued share capital of Verified Solutions Group Limited ("Verified Solutions"), which holds a 70% interest in Tianjin Tiancai Network Software Co., Ltd. ("Tiancai Network").

Tiancai Network is a Sino-foreign co-operative joint venture which was established in the PRC on 18 June 1999. Pursuant to the joint venture agreement, Verified Solutions contributed cash of US\$140,000 and the PRC joint venture partner, Genius Co., Ltd. ("Genius"), contributed the Full Channel Data Broadcasting Technology (the "Technology") and the data broadcasting business (the "Data Broadcasting Business") together with certain assets and liabilities as at 30 June 1999, with an aggregate value of US\$60,000 for a 70% and a 30% interest in Tiancai Network, respectively (the "Joint Venture").

Further details of the Reorganisation and the principal steps thereof are set out in notes 14, 16 and the paragraph headed "Corporate reorganisation" in Appendix IV of the prospectus issued by the Company on 17 January 2000.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 2. GROUP REORGANISATION AND BASIS OF PRESENTATION (continued)

The Reorganisation was accounted for by the Company in the year ended 31 December 2000 using the merger basis of accounting in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for Group Reconstructions". In applying the merger basis of accounting, the Group financial statements were prepared on the basis that the Group structure as at 11 January 2000 arising from its reorganisation had been in existence from the earliest incorporation date of the merging companies which, in this case, is 18 February 1999, being the incorporation date of Verified Solutions.

The Joint Venture investment has been accounted for as an acquisition by Verified Solutions. As such, the results of Tiancai Network have been included in the financial statements of the Group from 1 July 1999.

All significant intra-group transactions and balances have been eliminated in the preparation of the consolidated financial statements.

In the opinion of the directors, the Group financial statements prepared on the above basis present fairly the results, cash flows and state of affairs of the Group as a whole.

### 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.

#### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

#### **Joint venture companies**

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

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



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after 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 the fixed asset.

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

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The effective annual rate used for this purpose is as follows:

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

#### **Intangible asset**

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

Amortisation is calculated on the straight-line basis over the estimated economic life of the intangible asset, subject to a maximum period of five years commencing on the date when the Technology was brought into economic use.

#### **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.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Research and development costs**

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

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

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

#### **Operating leases**

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

#### **Inventories**

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

#### **Related parties**

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

#### **Foreign currencies**

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

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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) 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) the rendering of data broadcasting and related services, when such services are rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### Pension costs

The Group has joined a mandatory central pension scheme organised by the PRC Government for certain of its employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer's contributions are vested fully once they are made.

With effect from 1 December 2000, a mandatory provident fund scheme has been set up for all eligible employees of the Group in Hong Kong. The mandatory provident fund scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries.

#### Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 4. TURNOVER AND REVENUE

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

Revenue from the following activities has been included in turnover:

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Sales of data broadcasting hardware and software	23,380	7,566
Income from the provision of data broadcasting and related services	<u>1,978</u>	<u>739</u>
	25,358	8,305
Less: Business tax and government surcharges	<u>(99)</u>	<u>(70)</u>
	<u><u>25,259</u></u>	<u><u>8,235</u></u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 5. OPERATING PROFIT/(LOSS) BEFORE TAX

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

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Depreciation	175	53
Amortisation of an intangible asset	102	51
Operating lease rentals in respect of land and buildings	413	92
Research and development costs	728	250
Auditors' remuneration	395	250
Staff costs:		
Salaries and related staff costs	1,490	497
Pension contributions	227	67
	<u>1,717</u>	<u>564</u>
Provision for doubtful debts	1,225	-
Provision for slow-moving inventories	4,358	-
Exchange losses, net	14	-
	<u>1,239</u>	<u>8</u>
and after crediting:		
Interest income	<u>1,239</u>	<u>8</u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 6. DIRECTORS' REMUNERATION

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

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Fees	<u>40</u>	<u>-</u>
Other emoluments:		
Salaries and allowances	639	20
Pension contributions	<u>27</u>	<u>4</u>
	<u>666</u>	<u>24</u>
	<u><u>706</u></u>	<u><u>24</u></u>

The remuneration paid by the Group to the executive directors of the Company for the year ended 31 December 2000 analysed on an individual basis was as follows: HK\$117,000, HK\$233,000, HK\$117,000, HK\$133,000 and HK\$66,000.

The remuneration paid by the Group to the independent non-executive directors of the Company for the year ended 31 December 2000 analysed on an individual basis was as follows: HK\$20,000, HK\$20,000 and nil.

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 were no arrangements under which a director waived or agreed to waive any remuneration during the year.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four (1999: one) directors, details of whose remuneration are set out in note 6 to the financial statements. The details of the remuneration paid to the remaining one (1999: four) highest paid, non-director employee during the year are set out as follows:

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Salaries and allowances	520	138
Pension contributions	1	11
	<u>521</u>	<u>149</u>

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

	2000 No. of employees	Period from 18 February 1999 to 31 December 1999 No. of employees
Nil - HK\$1,000,000	<u>1</u>	<u>4</u>

### 8. TAX

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

Under the Income Tax Law of the PRC, Tiancai Network is subject to state income tax of 30% and local income tax of 3%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network is exempted 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 the year when it first becomes profitable. Tiancai Network is also exempted from local income tax for the first five years of operation, starting from the year when it first becomes profitable.

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



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK\$5,994,000 (period from 18 February 1999 to 31 December 1999: profit of HK\$146,000), and the weighted average of 309,180,822 (period from 18 February 1999 to 31 December 1999: 171,900,000) ordinary shares in issue during the year.

The number of shares used to calculate the 1999 earnings per share represents the share capital of the Company on the basis that the Reorganisation had been completed on 18 February 1999 and the subdivision of every share of HK\$0.10 each into four shares of HK\$0.025 each.

Diluted loss per share for the year ended 31 December 2000 has not been calculated as the impact of the outstanding share options was anti-dilutive.

Diluted earnings per share for the period from 18 February 1999 to 31 December 1999 has not been calculated as no diluting events existed during the period.

### 10. FIXED ASSETS

	<b>Group Furniture, fixtures and equipment HK\$'000</b>
Cost:	
At beginning of year	762
Additions	274
Exchange realignment	7
	<hr/>
At 31 December 2000	1,043
	<hr/>
Accumulated depreciation:	
At beginning of year	78
Provided during the year	175
Exchange realignment	1
	<hr/>
At 31 December 2000	254
	<hr/>
Net book value:	
At 31 December 2000	789
	<hr/> <hr/>
At 31 December 1999	684
	<hr/> <hr/>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 11. INTANGIBLE ASSET

	<b>Group</b> <b>HK\$'000</b>
Cost:	
At beginning of year and at 31 December 2000	<u>511</u>
Accumulated amortisation:	
At beginning of year	51
Provided during the year	<u>102</u>
At 31 December 2000	<u>153</u>
Net book value:	
At 31 December 2000	<u><u>358</u></u>
At 31 December 1999	<u><u>460</u></u>

### 12. INTERESTS IN A SUBSIDIARY

	<b>Company</b> <b>2000</b> <b>HK\$'000</b>
Unlisted shares, at cost	1,082
Due from a subsidiary	<u>27,993</u>
	29,075
Provision for permanent diminutions in value	(1,082)
Provision for an amount due from a subsidiary	<u>(956)</u>
	<u><u>27,037</u></u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 12. INTERESTS IN A SUBSIDIARY (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Verified Solutions Group Limited	British Virgin Islands	US\$10,000	100%	-	Investment holding
Tianjin Tiancai Network Software Co., Ltd.*	People's Republic of China	US\$5,000,000	-	70%	Provision of data broadcasting services and sale of related hardware and software
Beijing Tiancai Xinghuo Wideband Network Co., Ltd.*	People's Republic of China	US\$200,000	-	90%	Provision of data broadcasting services and sale of related hardware and software

\* The company's name in English is a direct translation of its name in Chinese.

### 13. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	2,597	-
Work in progress	3,215	-
Finished goods	238	1,085
	<u>6,050</u>	<u>1,085</u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 14. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place between 22 September 1999 and 31 December 2000.

- (i) On 22 September 1999 (date of incorporation of the Company), the authorised share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were issued nil paid on 24 September 1999.
- (ii) On 11 January 2000, in consideration for the acquisition of the entire issued share capital of Verified Solutions, the Company issued 1,000,000 shares of HK\$0.10 each at par, credited as fully paid, and paid in full at par the 1,000,000 shares issued nil paid on 24 September 1999.
- (iii) On 11 January 2000, the Company issued 40,975,000 shares of HK\$0.10 each at par to its then shareholders, credited as fully paid by the capitalisation of HK\$4,097,500 from the share premium account arising from the share placement (the "Placing"). On the same date, the Company issued 2,025,000 shares of HK\$0.10 each at par to Oriental Patron Asia Limited ("Oriental Patron") for professional services rendered. The shares were credited as fully paid by the capitalisation of HK\$202,500 from the share premium account arising from the Placing.
- (iv) On 21 January 2000, pursuant to the listing on GEM, the Company issued 30,000,000 shares of HK\$0.10 each at HK\$1.28 per share to the public by way of the Placing.
- (v) On 10 February 2000, pursuant to the over-allotment arrangement, the Company further issued 4,500,000 shares of HK\$0.10 each at HK\$1.28 per share to cover the over-allotment in the Placing.
- (vi) Pursuant to an ordinary resolution passed in a special general meeting held on 24 July 2000, every share of HK\$0.10 each in the issued and unissued share capital of the Company was subdivided into and redesignated as four shares of HK\$0.025 each with effect from 25 July 2000.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 14. SHARE CAPITAL (continued)

The following is a summary of the movements in the authorised and issued share capital of the Company:

	Number of authorised shares '000	Number of issued shares '000	Nominal value of shares issued HK\$'000
On incorporation, shares issued nil paid	1,000	1,000	-
Increase in authorised share capital	299,000	-	-
On acquisition of Verified Solutions*:			
Consideration shares issued	-	1,000	100
Incorporation shares credited as fully paid	-	-	100
Pro forma share capital of the Group			
as at 31 December 1999	300,000	2,000	200
Capitalisation issue to be paid up from the share premium arising from the Placing	-	40,975	-
Shares issued to Oriental Patron for services rendered, to be paid up from the share premium arising from the Placing	-	2,025	-
Shares issue on the Placing	-	30,000	3,000
Capitalisation of share premium for unpaid shares	-	-	4,300
Shares issued on over-allotment	-	4,500	450
Subdivision of share capital	900,000	238,500	-
Balance at 31 December 2000	<u>1,200,000</u>	<u>318,000</u>	<u>7,950</u>

\* Pursuant to the basis of presentation set out in note 2, the pro forma combined financial statements of the Group for the period ended 31 December 1999 have been presented as if the Reorganisation on 11 January 2000 had been completed on 18 February 1999.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 14. SHARE CAPITAL (continued)

#### Share Options

On 11 January 2000, the Company approved a 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 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 highest 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.

On 3 February 2000, the Company granted a total of 3,000,000 share options for nil consideration to employees, which entitle the holders to subscribe for shares in the Company at any time during the period from 3 February 2000 to 3 February 2007. The subscription price per share payable upon the exercise of each option is HK\$7.10, subject to adjustment.

With effect from 25 July 2000, the share capital of the Company was subdivided as explained above. The number of share options and the subscription price per share payable upon the exercise of each option were adjusted to 12,000,000 and HK\$1.775, respectively.

The Company had 12,000,000 outstanding share options at the balance sheet date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,000,000 additional shares of HK\$0.025 each.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 15. RESERVES

#### Group

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
Arising on Reorganisation and acquisition of a subsidiary	-	885	-	307	-	1,192
Net profit for the period from 18 February 1999 to 31 December 1999	-	-	-	-	146	146
At 31 December 1999 and at 1 January 2000	-	885	-	307	146	1,338
Shares issued on the Placing	35,400	-	-	-	-	35,400
Shares issued on over-allotment	5,310	-	-	-	-	5,310
Share issue expenses	(7,873)	-	-	-	-	(7,873)
Capitalisation for unpaid shares	(4,300)	-	-	-	-	(4,300)
Exchange realignments	-	-	76	-	-	76
Net loss for the year	-	-	-	-	(5,994)	(5,994)
At 31 December 2000	28,537	885	76	307	(5,848)	23,957

#### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Arising on Reorganisation	-	885	-	885
Shares issued on the Placing	35,400	-	-	35,400
Shares issued on over-allotment	5,310	-	-	5,310
Share issue expenses	(7,873)	-	-	(7,873)
Capitalisation for unpaid shares	(4,300)	-	-	(4,300)
Net loss for the year	-	-	(5,465)	(5,465)
At 31 December 2000	28,537	885	(5,465)	23,957

The contributed surplus of the Group 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.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 16. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of operating profit/(loss) before tax to net cash inflow/(outflow) from operating activities

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Operating profit/(loss) before tax	(7,193)	336
Interest income	(1,239)	(8)
Depreciation	175	53
Amortisation of an intangible asset	102	51
Increase in inventories	(4,965)	(874)
Decrease/(increase) in accounts receivable	(1,656)	156
Increase in prepayments, deposits and other receivables	(865)	(253)
Increase/(decrease) in accounts payable	1,190	(64)
Increase in other payables and accruals	1,190	253
Increase/(decrease) in an amount due to a director	(259)	376
Increase/(decrease) in an amount due to a related party	(1,094)	1,616
Effect of changes in foreign exchange rates	70	-
	<u>(14,544)</u>	<u>1,642</u>

- (b) Analysis of changes in financing during the year:

	Share capital and share premium HK\$'000	Minority interests HK\$'000
Arising on Reorganisation and acquisition of a subsidiary	200	-
Subsidiary acquired during the period from 18 February 1999 to 31 December 1999	-	596
Share of profit after tax	-	190
	<u>200</u>	<u>786</u>
Pro forma balances at 31 December 1999 and 1 January 2000	200	786
Shares issued on the Placing and over-allotment	36,287	-
Capital contributions from minority shareholders	-	11,384
Share of loss after tax	-	(1,199)
	<u>36,487</u>	<u>10,971</u>
Balance at 31 December 2000	<u>36,487</u>	<u>10,971</u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 16. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of a subsidiary:

	2000 HK\$'000	Period from 18 February 1999 to 31 December 1999 HK\$'000
Net assets acquired:		
Fixed assets	–	662
Intangible asset	–	511
Accounts receivable	–	732
Inventories	–	211
Cash contribution due from Verified Solutions	–	1,085
Accounts payable	–	(1,100)
Other payables	–	(88)
Accumulated depreciation	–	(25)
Minority interests	–	(596)
	–	1,392
Capital reserve arising on acquisition	–	(307)
	–	1,085
Capital contribution satisfied by cash	–	1,085



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 17. COMMITMENTS

(a) Capital commitments

	<b>Group</b>		<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Contracted, but not provided for	-	-	-
Authorised, but not contracted for	-	2,500	-
	<u>-</u>	<u>2,500</u>	<u>-</u>
	<u>-</u>	<u>2,500</u>	<u>-</u>

(b) Commitments under operating leases

At 31 December 2000, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year as follows:

	<b>Group</b>		<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Land and buildings expiring:			
Within one year	187	-	-
In the second to fifth years, inclusive	132	-	132
After five years	-	-	-
	<u>187</u>	<u>-</u>	<u>-</u>
	<u>319</u>	<u>-</u>	<u>132</u>



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 18. RELATED PARTY TRANSACTIONS

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

	2000	Period from 18 February 1999 to 31 December 1999
	HK\$'000	HK\$'000
Rentals paid to Genius	176	80
Purchase of stock analysis software from a subsidiary of Genius	-	539
Subcontracting charges paid to a subsidiary of Genius	182	-
Printing charges paid to Genius	44	-
	<u>          </u>	<u>          </u>

Tiancai Network was granted the right to use the "Tiancai" trademark in the normal course of business by Genius for no consideration.

The balances with Genius and with the director as at 31 December 2000 are unsecured, interest-free and have no fixed terms of repayment.

Genius is a joint stock limited company which holds a 30% interest in Tiancai Network.

In the opinion of the directors, the rentals, subcontracting charges and printing charges incurred were at rates approximating open market rates.

### 19. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### 20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 27 March 2001.