



CHINA DATA
BROADCASTING

China Data Broadcasting Holdings Limited

(中華數據廣播控股有限公司*)

(Incorporated in Bermuda with limited liability)

Annual Report 1999



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

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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
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Tianjin High-Tech Industry Park
Tianjin
PRC

Hong Kong liaison office

6th Floor,
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272-284 Des Voeux Road Central,
Hong Kong

Web Site

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

E-mail Address

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Compliance officer

Mr. YAO Xiao Dong

Qualified accountant

Mr. CHAI Chi Man *FHKSA FCCA*

Company secretaries

Mr. CHAI Chi Man *FHKSA FCCA*
Mr. Ira Stuart OUTERBRIDGE III*, *FCIS*

Authorised representatives

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

Members of the audit committee

Mr. LI Shan Hai
Mr. Andrew SHERRILL
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

Stock Code

8016



CORPORATE INFORMATION

Sponsor

Oriental Patron Asia Limited
GEM-Registered Sponsor
42nd Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Auditors

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong

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

HKSCC Registrars Limited
2nd Floor Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

Principal banker

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

* Mr. Ira-Outerbridge III has resigned as a secretary of the Company immediately following the listing of the Company's shares on GEM.



CHAIRMAN'S STATEMENT

1999 is a year in which a major restructuring of the Company and its subsidiaries (together the "Group") was carried out, allowing rapid development of its businesses. Under the concerted efforts of all our staff and with the support of shareholders, the Company was successfully listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (GEM), on 24th January 2000, 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 sale 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. Within the Information Technology ("IT") sector, the Group faced with intense competition and ever-changing technological development, and managed to achieve the following during the year 1999:-

1. We are the first one to make use of the Full Channel ("FC") data broadcasting technology to broadcast data in the PRC. In order to protect our intellectual rights, we applied for a patent for the utility model of the multimedia TV set top box for FC data broadcasting from State Intellectual Property Bureau in July 1999.
2. We have developed technology to enable users to receive data through television sets (TV) in addition to personal computers, which means that our market reach has expanded to the 350 million TV owners in the PRC. The enabler (i.e. TV set top boxes) is going to be launched to market in the year 2000.
3. We have formed strategic alliance with a number of internet content providers and engaged top quality teachers to enrich our education and the other service contents.
4. We have formed strategic alliance with 103 TV network operators out of which we have signed cooperative agreements with 14 for the sharing of subscriptions derived from our data broadcasting service contents.

1. REVIEW OF THE MARKET

The year 1999 saw the rapid development of the IT sector and intense competition of the market, the ever-changing technological development; adjustments in the policy relating to the IT industry; the entry of new competitors in the PRC as well as from outside the PRC, which together created enormous uncertainties to the IT service market. In this uncertain market which offered risks and opportunities at the same time, the management of the Group were able to make accurate judgement to the situation enabling the Group to ride out the risks of the initial stage of its establishment and moved into the stage of fast development.

During the year, our Tiancai brand name PC plug-in-boards continued to be one of the popular products in the market. Its market share increased substantially following its increase in sales volume of 101% over that of last year. In order to meet the needs of our customers, the Group followed closely on the latest technology and developed a variety of unique elements in its data broadcasting transmission and receiving modules as well as the related software products, bringing the Group well ahead of its competitors.



CHAIRMAN'S STATEMENT

As at the end of the 1999, the Group formed strategic alliance with 103 TV network operators, involving 24 provinces, municipalities and autonomous regions, the TV networks of which covered more than 20 million household. In order to secure a larger subscribers base, we will continue to establish further business relationship with the TV network operators and to provide free transmission modules and free technological support to them as well as to our new potential partners.

In line with our mission to develop data broadcasting technology, we are the first one to make use of the FC data broadcasting technology to broadcast data in the PRC and by virtue of this, we entered into cooperative agreements with 14 TV network operators including Tianjin TV Station for the sharing of subscriptions derived from our data broadcasting service. At 31st December 1999, we had over 6,000 subscribers using this service, representing a growth of 130% over last year.

In order that the data broadcasting service provided by the Group can better serve the needs of our subscribers and that the contents can be more compelling and rich, the Group has invested substantial amount of time and capital to enrich its service contents, and has also formed strategic alliance with a number of ICPs for the provision of electronic newspaper, shareware and other information to subscribers.

Being subscriber-oriented, the Group has established an influential position in the data broadcasting market of the PRC by a series of specially designed marketing plans. With the support of TV network operators all over China, the Group has established a comprehensive sales network in the PRC and consolidated the brand name and position of its products, in particular, the provision of data broadcasting service to the majority of cable TV subscribers in the PRC. In 1999, the Group focused on exploring the market in the eastern part of PRC with a view to establishing a data broadcasting subscriber base in Eastern PRC which is economically more developed, and then penetrate from it as a springboard to the whole nation. By expanding its sales and service area and popularising its brand name it succeeded in growing fast in the Northern PRC and Eastern PRC markets.

2. RESEARCH AND DEVELOPMENT

In 1999, the management of the Group continued to focus on investing in its research and development team. The team always has a good grasp of the latest market trend and technological development and develops IT and IT-related technologies, products and services. It has made material progress in certain areas of data broadcasting technology.

The successful development of VBI data broadcasting transmission module models III to V and the use of FC data broadcasting technology enable the Group to have more advanced and higher compatibility in the data broadcasting transmission systems of the PRC.

In respect of products, the development and launching of FC data broadcasting PC plug-in boards models IV to V makes it possible for the Group's products to have more powerful functions and at lower costs, which improves the competitiveness of its products over other similar products. The Group has succeeded in developing a new generation of data broadcasting access product - financial TV set top box, and has also applied for its patent. This will enable the Group's expansion from its potential subscriber base of data broadcasting using PC to subscribers using cable TV.



CHAIRMAN'S STATEMENT

In respect of software development, the Group succeeded in developing the second and third generation multimedia data broadcasting access softwares and succeeded in independently developing distance education software and education contents based on FC data broadcasting technology.

The Group has also been invited by the State Administration of Radio, Film and Television of the PRC to join the Data Broadcasting Standards Drafting Committee of the PRC to assist in setting the industry standards, to make recommendations to the administrative authorities and to assist in their implementation of industry rules and regulations.

3. FINANCIAL POSITION

The Group's pro forma annual turnover for 1999 increased significantly by 72% and reached 12.6 million. The Group's profit did not increase correspondingly because of the Group's strategy to increase its market share at the expense of margin.

In order to explore the market, the management of the Group formed strategic alliance with more TV network operators for more data broadcasting subscribers. In its market policy, it provides TV network operators with data broadcasting transmission modules and software free-of-charge, and in some regions PC plug-in boards and related software are sold to subscribers almost at cost. Also, the Group's distance education contents and a number of new product research and development projects are still at the developing stage. As a result of the foregoing, although the group enjoys a substantial rise in sales volume, operation and research and development costs in support of the Group's operations led to a drop in the Group's profit margin.

As at 31st December 1999, the Group's total liabilities amounted to only HK\$3.4 million. With HK\$2.6 million cash at 31st December 1999 plus the funds raised upon the listing of the Company on 24th January 2000, the Group is now in a very healthy financial position to plan for its future.

4. FUTURE PLANS AND PROSPECTS

We consider that digitized information in the PRC will remain at great demand. As the growth in the internet market in the PRC is subject to limitations, we believe that internet alone cannot meet the needs of PRC subscribers. Accordingly, we consider that data broadcasting offers a broad horizon of development and a huge market potential. The Group will continue focusing on the PRC market, and capitalizing on the already established leading edge in the data broadcasting industry, we will emphasise on developing sophisticated transmission and reception modules, forming strategic alliance with a large number of TV network operators, providing compelling and valuable multimedia program contents to attract more subscribers and hence, increase our market share.



CHAIRMAN'S STATEMENT

In the year 2000, we will launch our TV set top boxes to enable our customers to receive our data through their television sets (TV). With 350 million TV owners in the PRC, we believe that our first generation TV set top boxes will become a major source of income of the Group. In addition to the TV set top boxes, we will continue to improve the quality of PC plug-in boards in order that our products can become the clear leader of the market in the PRC.

We will continue to provide free transmission modules and free technological support to TV network operators and also to enrich our multimedia program contents in order to expand our alliance with TV network operators, both in terms of numbers and scope. Priority will be given to those TV network operators who have more than 300,000 subscribers and locate in the coastal and sizeable cities.

In order to attract more data broadcasting service subscribers, the Group will invest a considerable amount of resources to enrich its service contents. With a potential market of 216 million primary and secondary students in the PRC, focus will be on enriching our education software contents. We will also continue to collect new contents from electronic newspaper and financial information providers with a target to establish strategic alliance with 25 content providers in a year's time. We believe that the above can increase the number of subscribers and hence, provide a stable source of recurring subscriptions income to the Group.

We will take advantage of our well known Tiancai brand name and strengthen our sale and after-sale network in order to further enlarge our market share. We plan 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.

We believe that research and development is important in the long-term development of the Group's business. Accordingly, substantial resources will be put on R&D. Focus is on models III to V of the Full Channel transmission modules and the second generation multimedia TV set top boxes. In the meantime, plan has been established to develop the high-speed broadband data broadcasting system in preparation for the replacement of VBI and FC data broadcasting technology.

The main reason why the Group has been able to surpass its competitors and achieve a leading edge from time to time under the fierce competition of the present PRC IT market is that the management has been able to accurately grasp the trend of technological development, hence to formulate a series of time-honored effective development strategies for the Group. After two years of initial development, the Group has established reputable goodwill, sound financial management and excellent sales systems, and has trained a generation of young, motivated and able as well as mission-oriented management and research experts. Looking forward, the management of the Group will continue to make the best of efforts, and with the full support of investors, we will create a better future.

Professor Kou Jisong

Chairman

27 March, 2000



BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Prof. Kou Jisong, aged 52, 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 doctorate candidates and a member of the Chinese People's Political Consultative Conference. He is currently the vice-chancellor of Tianjin University and the chairman and general manager of 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 appointed the vice-chancellor. He holds a Ph.D. degree in systems engineering from Tianjin University.

Mr. Dong Jian Xin, aged 33, is the managing director of the Company. He is one of the founding staff members of the Group and is responsible for general management and operation of the Group. Before joining the Group in 1997, he has 9 years' experience in research and development of information systems. He holds a Master's degree in systems engineering from Tianjin University.

Prof. Li Min Qiang, aged 34, 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 has 10 years' experience in research and development of information systems. He holds a Master's degree in systems engineering from Tianjin University.

Mr. Yao Xiao Dong, aged 34, 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 has 10 years' experience in research of economic policy. He holds a Bachelor of Economics degree in Nankai University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Li Shan Hai, aged 60, is an independent non-executive director appointed by the Company in January 2000. He graduated from the People's University of China. He has 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 Restructuring Economic Systems. He joined Tianjin Office of the China Securities Regulatory Commission in 1995 and had been its directors before his retirement in July 1999.

Mr. Andrew Sherrill, aged 42, is an independent non-executive director appointed by the Company in January 2000. He is the managing director of Asia Vest Investment Advisory Limited. He obtained a Bachelor of Science degree in engineering from the United States Military Academy, West Point, New York, the United States, and a Master of Business Administration degree from the University of Colorado, at Colorado Springs in the United States. He has over 14 years' experience in securities and fund management.

Mr. Wang Fu Sun, aged 67, is an independent non-executive director appointed by the Company in January 2000. He has worked for the PRC government for over 30 years and has held positions in the Ministry of Foreign Affairs and the State Education Commission.



BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chai Chi Man, aged 37, is the group financial controller and company secretary of the Company. He is a Certified Public Accountant and holds a Master's degree in finance and investments from the University of Exeter, 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 has 15 years' experience in auditing and accounting and has worked for an international accounting firm as well as a number of listed companies and sizable organisations.

Mr. Tang Bin, aged 33, is the deputy general manager of Tiancai Network. He joined the Group in November 1997 and is responsible for product and services development, production, sales and marketing of the Group. He was a deputy head of the department of information services of Genius. He holds a Bachelor of Science degree in computing from East China University of Science & Technology.

Mr. Li Yong Chao, aged 36, is the chief engineer of Tiancai Network for research and development. Prior to joining the Group in January 1997, he has 7 years' experience in research and development in relation to electronic industry. He holds a Master of Engineering degree from Hebei Institute of Engineering.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that a annual general meeting of China Data Broadcasting Holdings Limited (the "Company") will be held at 10:00a.m. on 25th April, 2000 at Jade Ballroom 1, 3/F. Furama Hotel, One Connaught Road Central, Hong Kong 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 pro forma combined financial statements and the reports of the directors and auditors of the Company for the period ended 31st December, 1999.
2. To re-elect retiring directors and authorise the directors to fix their remuneration.
3. To appoint auditors and authorise the directors to fix their remuneration.
4. By way of special business, to consider and, if thought fit, pass with or without alterations, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

(1) **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 and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and 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 or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the grant or exercise of any option under the share option scheme of the Company; or (iii) 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 (iv) 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:
 - (aa) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and



NOTICE OF ANNUAL GENERAL MEETING

(bb) (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 per cent 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; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of 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 in the Company on the register on a fixed record date in proportion to the holdings of shares (subject to such exclusion 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).”

(2) **THAT**

- (a) the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase its Shares 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 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 the same is hereby generally and unconditionally approved;



NOTICE OF ANNUAL GENERAL MEETING

- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent, of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purposes of this Resolution, "Relevant Period" means the period from the date of 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 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.
- (3) **THAT** the Directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4(1) above in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such Resolution.

By order of the Board

Chai Chi Man

Company Secretary

28 March, 2000

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Hong Kong liaison office:

6th Floor
Hing Yip Commercial Centre
272-284 Des Voeux Road Central
Hong Kong



NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. 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.
2. 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.
3. The instrument appointing a proxy and 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 Hong Kong branch share registrar, HKSCC Registrars Limited of 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).
4. 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 pro forma combined financial statements of the Group for the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999 (the "Relevant Period").

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 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 pro forma combined financial statements are set out in note 1 to the pro forma combined financial statements.

PRINCIPAL ACTIVITIES

As at 31 December 1999, the Company had not yet commenced business, and the Group was not in existence as at that date. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the principal activity of the Company would have been investment holding and the principal activities of its subsidiaries would be those as set out in note 16 to the pro forma combined financial statements.

SEGMENTED INFORMATION

The Group was not in existence as at 31 December 1999. However, had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the Group's pro forma combined turnover and contribution to operating profit before tax for the Relevant Period would have been all derived from the People's Republic of China (the "PRC"). An analysis of the Group's pro forma combined turnover and contribution to operating profit before tax by principal activity for the Relevant Period is as follows:

	Pro forma combined turnover HK\$'000	Pro forma combined contribution HK\$'000
By principal activity:		
Sale of data broadcasting hardware and software	7,537	687
Provision of data broadcasting and related services	<u>698</u>	<u>(351)</u>
	<u><u>8,235</u></u>	<u><u>336</u></u>

RESULTS AND DIVIDENDS

The Group's pro forma combined profit for the Relevant Period and the pro forma combined balance sheet of the Group at 31 December 1999 are set out in the pro forma combined financial statements on pages 24 to 39.

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

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

The following is a summary of the pro forma combined results of the Group for each of the three years ended 31 December 1999 and the pro forma combined assets and liabilities of the Group as at 31 December 1999, prepared on the basis set out in note 1 below.

PRO FORMA RESULTS

	Year ended 31 December		
	1997	1998	1999
	HK\$'000	HK\$'000	HK\$'000
TURNOVER	293	7,294	12,559
Cost of sales	<u>(222)</u>	<u>(5,770)</u>	<u>(10,222)</u>
Gross profit	71	1,524	2,337
Interest income	—	—	8
Selling expenses	(12)	(315)	(1,014)
General and administrative expenses	<u>(186)</u>	<u>(480)</u>	<u>(1,181)</u>
OPERATING PROFIT/(LOSS) BEFORE TAX	(127)	729	150
Tax	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(127)	729	150
Minority interests	<u>38</u>	<u>(219)</u>	<u>(134)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>(89)</u>	<u>510</u>	<u>16</u>

PRO FORMA COMBINED ASSETS AND LIABILITIES

	31 December
	1999
	HK\$'000
TOTAL ASSETS	5,693
TOTAL LIABILITIES AND MINORITY INTERESTS	<u>(4,155)</u>
NET ASSETS	<u>1,538</u>

Notes:

1. The pro forma combined results of the Group for each of the three years ended 31 December 1999 and the pro forma combined 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

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the details of movements in the fixed assets of the Group would have been as set out in note 9 to the pro forma combined financial statements.

SUBSIDIARIES

The Company did not have any subsidiaries at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the particulars of the subsidiaries would have been as set out in note 16 to the pro forma combined financial statements.

SHARE CAPITAL

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the details of movements in the Company's share capital during the Relevant Period, together with the reasons therefor, would have been as set out in note 12 to the pro forma combined financial statements.

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 existing shareholders.

RESERVES

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the details of movements in the reserves of the Group during the Relevant Period would have been as set out in note 13 to the pro forma combined financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 1999, the Company did not have any distributable reserves.

PENSION SCHEME AND COSTS

The Group does not provide any provident fund or other similar pension scheme for its employees in Hong Kong. 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 pro forma combined profit and loss account for the Relevant Period are set out in note 5 to the pro forma combined financial statements.



REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the Group's total pro forma combined sales for the Relevant Period to the five largest customers would have accounted for less than 30% of the Group's pro forma combined turnover.

The Group's pro forma combined purchases from the five largest suppliers would have accounted for approximately 44% of the total pro forma combined purchases for the Relevant Period and pro forma combined purchases from the largest supplier included therein would have amounted to approximately 14%.

As far as the directors are aware, neither the directors, their associates, nor any shareholders, which to the knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interests in the five largest customers and suppliers.

DIRECTORS

The directors of the Company from 22 September 1999 (date of incorporation) to the date of this report were as follows:

Executive directors

Prof. Kou Jisong (<i>Chairman</i>)	(appointed on 24 September 1999)
Mr. Dong Jian Xin (<i>Managing Director</i>)	(appointed on 24 September 1999)
Prof. Li Min Qiang	(appointed on 11 January 2000)
Mr. Yao Xiao Dong	(appointed on 11 January 2000)

Independent non-executive directors

Mr. Li Shan Hai	(appointed on 11 January 2000)
Mr. Andrew Sherrill	(appointed on 11 January 2000)
Mr. Wang Fu Sun	(appointed on 11 January 2000)

In accordance with bye-law 86 of the Company's bye-laws, Prof. Li Min Qiang, Mr. Yao Xiao Dong, Mr. Li Shan Hai, Mr. Andrew Sherrill and Mr. Wang Fu Sun retire by rotation 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.

REPORT OF THE DIRECTORS

DIRECTORS' EMOLUMENTS

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the details of the remuneration paid to one executive director during the Relevant Period would have been as follows:

	HK\$'000
Fees	—
Other emoluments:	
Salaries and allowances	20
Pension contributions	<u>4</u>
	<u><u>24</u></u>

During the Relevant Period, no fees or remuneration were paid to independent non-executive directors.

There were no arrangements under which a director waived or agreed to waive any remuneration.

FIVE HIGHEST PAID EMPLOYEES

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), the five highest paid employees of the Group would have included one director for the Relevant Period. Pro forma information relating to this director's remuneration has been disclosed above. The emoluments that would have been paid to the remaining four highest paid, non-director employees during the Relevant Period are set out below:

	HK\$'000
Fees	—
Other emoluments:	
Salaries and allowances	138
Pension contributions	<u>11</u>
	<u><u>149</u></u>

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

Nil - \$1,000,000	<u><u>4</u></u>
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During the Relevant Period, no emoluments were paid by the Group to the directors or the other highest paid, non-director employees as a bonus, as an inducement to join the Group, or as compensation for loss of office.

REPORT OF THE DIRECTORS

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 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 per cent 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 Group reorganisation prior to the Company's initial public offering, at no time during the Relevant Period 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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

Subsequent to the balance sheet date, on 24 January 2000, the Company was listed on GEM. Accordingly, as at the date of this report, the interests of the directors and their associates in the share capital of the Company and the shares of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Directors	Number of issued ordinary shares of HK\$0.10 each in the Company			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Dong Jian Xin	—	—	—	4,297,500 (a)
Prof. Li Min Qiang	—	—	—	4,297,500 (b)
Mr. Yao Xiao Dong	—	—	—	4,297,500 (c)

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARE CAPITAL (continued)

Notes:

- (a) These 4,297,500 shares, together with another 38,677,500 shares, are held by Ultra Challenge Limited ("Ultra Challenge"), the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Prof. Li Min Qiang, Mr. Yao Xiao Dong and certain employees of the Group. Accordingly, Mr. Dong Jian Xin is deemed to be interested in 4,297,500 shares by virtue of his 10% interest under the trust.
- (b) These 4,297,500 shares, together with another 38,677,500 shares, are held by Ultra Challenge, the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Prof. Li Min Qiang, Mr. Yao Xiao Dong and certain employees of the Group. Accordingly, Prof. Li Min Qiang is deemed to be interested in 4,297,500 shares by virtue of his 10% interest under the trust.
- (c) These 4,297,500 shares, together with another 38,677,500 shares, are held by Ultra Challenge, the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Prof. Li Min Qiang, Mr. Yao Xiao Dong and certain employees of the Group. Accordingly, Mr. Yao Xiao Dong is deemed to be interested in 4,297,500 shares by virtue of his 10% interest under the trust.

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

DIRECTORS' 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 Relevant Period.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

SUBSTANTIAL SHAREHOLDERS

Subsequent to the balance sheet date on 24 January 2000, the Company was listed on GEM. Accordingly, as at the date of this report, 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 Limited	42,975,000	54.1

The shares in Ultra Challenge Limited are held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang, Mr. Yao Xiao Dong, Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei.



REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

The Group was not in existence at 31 December 1999. Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group), during the Relevant Period, the Group would have purchased stock analysis software from Beijing Taslon Science & Technology Development Co., Ltd., a 51% owned subsidiary of Genius Co., Ltd. Genius Co., Ltd 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. Further details of the transaction are included in note 17 to the pro forma combined financial statements. The directors advise that above connected transactions was entered into in the Ordinary and usual cause of business of the Group.

SUBSEQUENT EVENTS

Details of the subsequent events of the Group are set out in note 18 to the pro forma combined financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on GEM on 24 January 2000, accordingly, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Relevant Period.

SPONSOR'S INTERESTS

The Company's sponsor, Oriental Patron Asia Limited ("Oriental Patron") its directors, employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), were interested in NIL and 2,025,000 shares of the Company as at 31st December and 27th March, 2000 respectively.

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

THE YEAR 2000 ISSUE

The Year 2000 issue refers to problems arising in computer operations that fail to recognise the year 2000. In the past, computer data storage was expensive and some systems engineers used only two digits to represent the year in databases to save storage space. As a result of the decreasing costs of data storage, advances in technology, and awareness of the Year 2000 issue, most recently developed products on the market are now Year 2000 compliance.



REPORT OF THE DIRECTORS

THE YEAR 2000 ISSUE (continued)

The Year 2000 compliance issue has been taken into account during the research and development stage of the Group's products. In addition, all software developed by the Group is tested to ensure it is Year 2000 compliant before it is launched. For outsourced software, the Group requires the suppliers to provide confirmation that it is Year 2000 compliant.

The Group conducted an assessment on its internal computer systems and concluded that they were Year 2000 compliant. In addition, the Group implemented a Year 2000 contingency plan which mainly included the making of back-up copies of all computer files and the maintaining of a systematic filing of hard copies of the relevant documents. The Group has not experienced any major Year 2000 problems at the date of this report. All the products sold by the Group are also Year 2000 compliant.

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

27 March 2000



REPORT OF THE AUDITORS

To the members

China Data Broadcasting Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the pro forma combined financial statements on pages 24 to 39 which have been prepared on the basis as if the Group structure as at 11 January 2000 had been in existence from 18 February 1999 (pro forma formation date of the Group). Details of the reorganisation and the basis of presentation are set out in note 1 to the pro forma combined financial statements.

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 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 pro forma combined financial statements, prepared on the basis set out in note 1 to the pro forma combined financial statements, give a true and fair view, in all material respects, of the state of affairs of the Group as at 31 December 1999 and of its profit and cash flows for the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999 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 2000

PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT

For the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999

		18 February 1999 (pro forma formation date of the Group) to 31 December 1999 HK\$'000	For information purposes only 1 January 1999 to 31 December 1999 HK\$'000
	Notes		
TURNOVER	4	8,235	12,559
Cost of sales		<u>(6,279)</u>	<u>(10,222)</u>
Gross profit		1,956	2,337
Interest income		8	8
Selling expenses		(752)	(1,014)
General and administrative expenses		<u>(876)</u>	<u>(1,181)</u>
OPERATING PROFIT BEFORE TAX	5	336	150
Tax	7	<u>—</u>	<u>—</u>
PROFIT BEFORE MINORITY INTERESTS		336	150
Minority interests		<u>(190)</u>	<u>(134)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>146</u>	<u>16</u>
EARNINGS PER SHARE	8	<u>7.3 cents</u>	<u>0.8 cent</u>

Other than the net profit attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a pro forma combined statement of recognised gains and losses is not presented in the pro forma combined financial statements.

The pro forma combined profit and loss account from 1 January to 31 December 1999 is presented for information purposes only, and does not form part of the audited pro forma combined financial statements of the Group.

PRO FORMA COMBINED BALANCE SHEET

31 December 1999

	Notes	HK\$'000
NON-CURRENT ASSETS		
Fixed assets	9	684
Intangible asset	10	<u>460</u>
		<u>1,144</u>
CURRENT ASSETS		
Inventories	11	1,085
Accounts receivable		576
Prepayments		253
Cash and bank balances		<u>2,635</u>
		<u>4,549</u>
CURRENT LIABILITIES		
Accounts payable		1,036
Other payables and accruals		341
Amount due to a director	17	376
Amount due to a related party	17	<u>1,616</u>
		<u>3,369</u>
NET CURRENT ASSETS		<u>1,180</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		
Minority interests		<u>786</u>
		<u>1,538</u>
CAPITAL AND RESERVES		
Share capital	12	200
Reserves	13	<u>1,338</u>
		<u>1,538</u>

Kou Jisong
Director

Dong Jian Xin
Director

PRO FORMA COMBINED CASH FLOW STATEMENT

For the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999

	Notes	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	14(a)	1,642
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received		<u>8</u>
Net cash inflow from returns on investments and servicing of finance		<u>8</u>
INVESTING ACTIVITIES		
Purchases of fixed assets		<u>(100)</u>
Net cash outflow from investing activities		<u>(100)</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES		1,550
FINANCING ACTIVITIES	14(c)	
Capital contribution to the Group		<u>1,085</u>
Net cash inflow from financing activities		<u>1,085</u>
INCREASE IN CASH AND CASH EQUIVALENTS		2,635
Cash and cash equivalents at beginning of period		<u>—</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD		<u><u>2,635</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances		<u><u>2,635</u></u>

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

1. 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 during the period. 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.

Furthermore, as the reorganisation set out below was completed subsequent to 31 December 1999, the Group did not exist as at that date. Accordingly, no Group financial statements have been presented.

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 the paragraph headed "Corporate reorganisation" in Appendix IV of the prospectus issued by the Company on 17 January 2000.

The Reorganisation will be accounted for by the Company in the year ending 31 December 2000 using the merger accounting method in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions". In applying merger accounting, the Group financial statements will be prepared on the basis that the Group structure as at 11 January 2000 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. Therefore, under merger accounting, 18 February 1999 is the effective formation date of the Group. In consequence, in preparing the pro forma combined financial statements for 1999, 18 February 1999 has also been adopted as the pro forma formation date of the Group.

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

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

1. GROUP REORGANISATION AND BASIS OF PRESENTATION (continued)

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

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

The pro forma combined profit and loss account for the year ended 31 December 1999, which is presented for information purposes only, has been prepared on the basis that the Reorganisation and the Joint Venture had been completed or established on 1 January 1999.

2. CORPORATE INFORMATION

Had the Reorganisation been completed on 18 February 1999 (pro forma formation date of the Group) and had the Group been in existence since that date, the Group would have been involved in the following principal activities carried out in the People's Republic of China (the "PRC") during the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999 ("Relevant Period"):

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

In the opinion of the directors, had the Reorganisation been completed on 18 February 1999 and had the Group been in existence since that date, the ultimate holding company of the Company as at 31 December 1999 would have been Ultra Challenge Limited, which is incorporated in the British Virgin Islands with limited liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Joint venture company

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 of the joint venture.

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

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

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 a fixed asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

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

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, except to the extent that they reverse previous revaluation surplus in respect of the same items, when they are charged to the revaluation surplus.

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%
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Intangible asset

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

Amortisation is calculated on the straight-line basis over the estimated economic life of the intangible asset, subject to a maximum period of five years commencing from 1 July, 1999 when the Technology was brought into economic use.

Capital reserve

Capital reserve arising on the acquisition of the Technology and the Data Broadcasting Business, which was contributed by Genius for a 30% interest in Tiancai Network, 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 PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

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 life 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 lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

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

Related parties

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

Foreign currency

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

Deferred taxation

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

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

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) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) on the rendering of data broadcasting and related services, when such services are rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Pension costs

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 employers' contributions vest fully once they are made.

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:

	HK\$'000
Sale of data broadcasting hardware and software	7,566
Income from provision of data broadcasting and related services	<u>739</u>
	8,305
Less: Business tax and government surcharges	<u>(70)</u>
	<u><u>8,235</u></u>

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

5. OPERATING PROFIT BEFORE TAX

The Group's operating profit before tax is arrived at after charging:

	HK\$'000
Salaries and related staff costs	497
Pension contributions	<u>67</u>
	<u>564</u>
Auditors' remuneration	250
Depreciation	53
Amortisation of intangible asset	51
Operating lease rentals on land and buildings	92
Research and development costs	<u>250</u>

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:

	HK\$'000
Fees	—
Other emoluments:	
Salaries and allowances	20
Pension contributions	<u>4</u>
	<u>24</u>

The above remuneration was paid to one executive director. No emoluments were paid by the Group to that executive director as a bonus, as an inducement to join the Group, or as compensation for loss of office. During the period, no fees and remuneration were paid to independent non-executive directors.

There were no arrangements under which a director waived or agreed to waive any remuneration.

7. TAX

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

During the period from 1 July 1999 to 31 December 1999, the Data Broadcasting Business of Tiancai Network was conducted in the name of Genius for the benefit of Tiancai Network and, as the taxable income of the Data Broadcasting Business for the period was not material, Genius has agreed not to allocate any income tax to Tiancai Network. Accordingly, no income tax was payable by Tiancai Network during the aforesaid period. Under the Income Tax Law of the PRC, Tiancai Network is subject to state income tax of 30% and

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

7. TAX (continued)

local income tax of 3%. Pursuant to an approved 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 starting from the year when it first becomes profitable and thereafter, is entitled to a 50% relief from income tax for the third to fifth years, inclusive. 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 Relevant Period.

8. EARNINGS PER SHARE

The pro forma earnings per share for the Relevant Period is calculated based on the pro forma combined profit attributable to shareholders for the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999 of HK\$146,000 and the pro forma weighted average of 2,000,000 shares in issue during the period.

The pro forma earnings per share for the year ended 31 December 1999 is calculated based on the pro forma combined profit attributable to shareholders for the year ended 31 December 1999 of HK\$16,000 and the pro forma weighted average of 2,000,000 shares in issue during the year.

9. FIXED ASSETS

	Furniture, fixtures and equipment HK\$'000
Cost:	
Arising on acquisition of a subsidiary	662
Additions	<u>100</u>
At 31 December 1999	<u>762</u>
Accumulated depreciation:	
Arising on acquisition of a subsidiary	25
Provided during the period	<u>53</u>
At 31 December 1999	<u>78</u>
Net book value:	
At 31 December 1999	<u><u>684</u></u>

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

31 December 1999

10. INTANGIBLE ASSET

	HK\$'000
Cost:	
Arising on acquisition of a subsidiary and at 31 December 1999	<u>511</u>
Accumulated amortisation:	
Provided during the period and at 31 December 1999	<u>51</u>
Net book value:	
At 31 December 1999	<u><u>460</u></u>

11. INVENTORIES

	HK\$'000
Finished goods	<u><u>1,085</u></u>

12. SHARE CAPITAL

The following changes in the Group's authorised and issued share capital took place between 18 February 1999 (pro forma formation date of the Group) and 10 February 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 shareholder, 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 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.

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12. SHARE CAPITAL (continued)

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

	Number of authorised shares	Number of issued shares	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	—
New issue on Placing	—	30,000	3,000
Capitalisation of share premium for unpaid shares	—	—	4,300
Shares issued on over-allotment	—	4,500	450
	<u>300,000</u>	<u>79,500</u>	<u>7,950</u>

* Pursuant to the basis of presentation set out in note 1, the pro forma combined financial statements of the Group have been presented as if the Reorganisation on 11 January 2000 had been completed on 18 February 1999 (pro forma formation date of the Group).

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

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13. RESERVES

	Contributed surplus HK\$'000	Capital reserve HK\$'000	Retained profit HK\$'000	Total HK\$'000
Arising on Reorganisation and acquisition of a subsidiary	885	307	—	1,192
Retained profit for the period	<u>—</u>	<u>—</u>	<u>146</u>	<u>146</u>
At 31 December 1999	<u><u>885</u></u>	<u><u>307</u></u>	<u><u>146</u></u>	<u><u>1,338</u></u>

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.

14. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT

(a) Reconciliation of operating profit before tax to net cash inflow from operating activities

	HK\$'000
Operating profit before tax	336
Interest income	(8)
Depreciation	53
Amortisation of intangible asset	51
Increase in inventories	(874)
Decrease in accounts receivable	156
Increase in prepayments	(253)
Decrease in accounts payable	(64)
Increase in other payables and accruals	253
Increase in amount due to a director	376
Increase in amount due to a related party	<u>1,616</u>
Net cash inflow from operating activities	<u><u>1,642</u></u>

(b) Analysis of changes in financing during the period:

	Minority interests HK\$'000
Subsidiary acquired during the period	596
Share of profit after taxation	<u>190</u>
Balance at 31 December 1999	<u><u>786</u></u>

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

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14. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT (continued)

(c) Acquisition of a subsidiary:

	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	<u>(596)</u>
	1,392
Capital reserve arising on acquisition	<u>(307)</u>
	<u>1,085</u>
Capital contribution satisfied by cash	<u>1,085</u>

15. COMMITMENTS

As at 31 December 1999, the Group had the following material commitments:

(i) Capital commitments

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

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

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16. SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Reorganisation are set out below:

Name	Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage of equity attributable to the Group	Principal activities
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\$200,000	70%	Provision of data broadcasting services and sale of related hardware and software

Indirectly held by the Company

17. RELATED PARTY TRANSACTIONS

During the period from 18 February 1999 (pro forma formation date of the Group) to 31 December 1999, the Group had the following significant transactions in the normal course of business with its related parties:

- (i) The Group paid HK\$80,000 to Genius for rental of office premises together with fixtures thereof.
- (ii) The Group purchased from a subsidiary of Genius Stock analysis software of HK\$539,000.
- (iii) 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 1999 are unsecured, interest-free and have no fixed term of repayment.

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

In the opinion of the directors, the rental expenses paid and the stock analysis software purchased were at rates approximating open market rates.

NOTES TO PRO FORMA COMBINED FINANCIAL STATEMENTS

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18. SUBSEQUENT EVENTS

The following events occurred subsequent to the balance sheet date:

- (a) on 8 January 2000, Tiancai Network entered into a trademark license agreement and certain other connected transaction agreements with Genius and its subsidiary. Details of these agreements are set out in the prospectus of the Company dated 17 January 2000;
- (b) As described in note 1 above on 11 January 2000, the companies now comprising the Group underwent a corporate reorganisation in preparation for the listing of the shares of the Company on GEM. The details of the corporate reorganisation are set out in the prospectus of the Company dated 17 January 2000. As a result of the reorganisation, the Company became the holding company of the Group;
- (c) on 21 January 2000, the Company issued 30,000,000 shares of HK\$0.10 each by way of placing at HK\$1.28 per share for a total cash consideration of HK\$38.4 million for working capital and investment purposes; and
- (d) 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 shares for total cash consideration of HK\$5.8 million for working capital and investment purposes.

The following is an abbreviated pro forma combined balance sheet of the Group after adjusting for the gross proceeds from the issue of shares on 21 January and 10 February 2000:

	HK\$'000
Non-current assets	1,144
Current assets	48,709
Current liabilities	(3,369)
Minority interest	<u>(786)</u>
	<u>45,698</u>
Share capital	7,950
Reserves	<u>37,748</u>
	<u>45,698</u>

19. APPROVAL OF THE PRO FORMA COMBINED FINANCIAL STATEMENTS

The pro forma combined financial statements were approved by the board of directors on 27 March 2000.