

REVIEW OF OPERATIONS

The Group's unaudited consolidated turnover amounted to HK\$738,238,000 for the six months ended 31 December 2000, compared with HK\$771,422,000 for the previous corresponding period. Turnover decreased as a result of the Group's realignment of its product and service mix targeted at achieving enhanced return, in particular, discontinuing lower margin business activities, while focusing on high-margin communications software business.

Net profit for the six months ended 31 December 2000 was HK\$158,538,000, and earnings per share was HK2.7 cents. Despite the allocation of resources to new investments which are not expected to contribute to the Group's near term profitability, management has been prudent to ensure that such new investments do not impact negatively on the Group's results.

During the period under review, the Group had continued to maintain a strong and growing recurrent income base and cashflows as contributed by its pool of well-established customers who regularly required update and enhancement of their communications systems. The integration of Internet functionalities with existing communications infrastructure had constituted a significant part of the Group's activities during the period.

As described in the Company's Annual Report 2000 released in November last year, the Group had realigned its various communications and Internet-based activities under the five banners of *e-commerce*; *Internet activities*; *wireless enabling technologies*; *telecom networks*; and *microelectronics*.

A summary of the key developments during the period is provided below:

BINGO™ (Biometric Identification New Generation Options)

A sophisticated and robust fingerprint identification ("FingerID") system that applies advanced digital biometrics technology was launched. This FingerID system represented the first of the Group's BINGO™ series of products that Group members have been developing over the years as part of the Group's Security and Authenticity Program for e-commerce and m-commerce initiatives. Interest was high among financial institutions, commercial enterprises, and government departments. Discussion with co-operation partners for enhanced offerings, and prospective clients for customisation and installation, continued.

B2B Electronics Exchange

A dedicated electronics exchange specially built for the trading arm of electronics giant Hitachi of Japan registered good progress. The exchange, which aimed at integrating web-based global sourcing with various value-added services such as order processing, product development, quality control, logistics and financial arrangements, is expected to be rolled out commercially in the second half of this year. Potential investors have expressed interest in acquiring a stake in the project.

DIGITALHONGKONG.COM (Digital HK) Unveiled its Phone-based payment solution for mobile commerce

Digital HK, spun-off from the Group in April last year, has developed a payment solution for B2C application which integrates e-payments via mobile phones with its existing online payment platform. Digital HK was also involved in providing technical consultation on payment solutions for a B2B exchange. New partnerships and strategic alliances continue to be formed.

Kantone Holdings Limited

New products have been added to the WIN (wireless integrated networking) family of wireless solutions, providing an advance communications hub that integrates with traditional PABX technologies and bridges into the new broadband IP (Internet Protocol) servers, thus giving enterprise clients a seamless path to wired and wireless technologies. Interest from existing clients in the industries of healthcare, emergency services, and hospitality is particularly keen.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and stable financial position. It finances its business activities primarily through cash generated by operations.

As at 31 December 2000, the Group had HK\$563 million made up of deposits, bank balances and cash. Its current ratio was 1.6. Total bank borrowings were HK\$385 million, and the ratio of total bank borrowings to total equity was 0.15 at the end of the period under review.

Taking into consideration the Group's internally generated funds and available banking facilities, the Directors have ascertained that the Group has adequate financial resources to sustain its working capital requirements and future expansion. The Group will continue to adopt its conservative and prudent policy towards financial and treasury management.

PROSPECTS

Year 2001 is going to be challenging. The slowdown of the US economy will affect other global economies, and the telecom and Internet sectors are expected to undergo major consolidation after a period of significant and rapid expansion. Nevertheless, the management believes that the prospects of new, value-added technology businesses remain promising, and that e-commerce and other Internet-related businesses will evolve as the mainstream economic activities in the long run.

Looking ahead, the Group will continue to leverage its strengths in the wireless and communications software areas to provide more added value to its range of service offerings and applications. Towards this end, co-operation and strategic alliances with industry leaders and international technology partners will continue to be forged. China's approaching entry into the World Trade Organisation and the associated liberalisation of trade is expected to provide significant business opportunities for the Group. In particular, the Group's global network and international experience will position its members favourably in helping Chinese companies to explore the enormous overseas market potential.

INTERIM DIVIDEND

The directors of the Company have declared an interim dividend of HK0.125 cent per share (1999: HK0.125 cent per share) to shareholders whose names appear on the Register of Members on 17 April 2001, to be satisfied by allotment of new shares, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in cash in lieu of such allotment (the "scrip dividend scheme").

The scrip dividend scheme will be subject to the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the scrip dividend scheme and the basis of allotment together with a form of election will be sent to the shareholders of the Company as soon as practicable.

It is expected the certificates for the new shares and dividend warrants will be despatched to those entitled thereto on or before 15 June 2001.

CLOSURE OF REGISTER OF MEMBERS

In order to qualify for the interim dividend and the scrip dividend scheme, the register of members of the Company will be closed from 17 April 2001 to 23 April 2001, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers, accompanied by the relevant share certificates, and in the case of warrantholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies, must be lodged with the Company's Hong Kong Share Registrars, Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by no later than 4:00p.m. on 12 April 2001.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2000, the interests of the directors and their associates in the securities of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:-

Name	Number of securities
<i>Securities of the Company</i>	
Paul KAN Man Lok (Note 1)	2,065,521,680 shares 413,104,336 units of warrants
<i>Securities of Kantone Holdings Limited</i>	
Paul KAN Man Lok (Note 2)	277,504,187 shares
<i>Securities of DIGITALHONGKONG.COM</i>	
Paul KAN Man Lok (Note 3)	119,969,171 shares

Notes:

1. These shares and warrants of the Company were owned by Lawnside International Limited ("Lawnside"), which is wholly owned by Lanchester Limited. Lanchester Limited is a company beneficially owned by a discretionary trust, the eligible discretionary objects of which include Paul Kan Man Lok and his family members and staff of the Group. Currently only Paul Kan Man Lok and his family members are discretionary objects of the trust. These are classified as other interests under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
2. 210,990,117 shares of these shares in Kantone Holdings Limited are held by the Company and 66,514,070 shares are held by Lawnside. These are classified as other interests under the Listing Rules.
3. 117,300,000 shares of these shares in DIGITALHONGKONG.COM were held by the Company and 2,669,171 shares were held by Lawnside. These are classified as other interests under the Listing Rules.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

The Company, Kantone Holdings Limited ("Kantone") and DIGITALHONGKONG.COM, each has a share option scheme under which employees, including directors, of the Company, Kantone, DIGITALHONGKONG.COM or any of their subsidiaries may be granted options to subscribe for shares in Champion, Kantone and DIGITALHONGKONG.COM respectively.

(i) The Company

Details of the share option scheme of the Company are set out in note 26 to the financial statements as referred to in the Company's Annual Report 2000.

As at 31 December 2000, the following Directors held share options granted by the Company which are exercisable on the following terms:

Name of director	Exercise period	Exercise price per share HK\$	Number of shares under outstanding options at 30 June 2000 and 31 December 2000
Leo Kan Kin Leung	30 April 1999 to 29 April 2002	0.17328	15,000,000
	8 February 2000 to 7 February 2003	0.4656	1,000,000
Sunny Lai Yat Kwong	30 April 1999 to 29 April 2002	0.17328	15,000,000
	8 February 2000 to 7 February 2003	0.4656	1,000,000

(ii) Kantone

At the beginning of the period, options to subscribe for 5,000,000 shares of Kantone at the price of HK\$0.3712 per share were held by Sunny Lai Yat Kwong. These options were still outstanding as at 31 December 2000 and expired on 4 February 2001.

(iii) DIGITALHONGKONG.COM

No option was granted by DIGITALHONGKONG.COM to any directors of the Company since its adoption.

Other than the share option schemes described above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests of the directors disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

AUDIT COMMITTEE

The Audit Committee engaged external auditors to assist the Audit Committee in its review of the interim accounts. The external auditors' review consisted of management enquiries and analytical procedures, but was neither an audit nor a review under the guidelines of SAS 700 issued by the Hong Kong Society of Accountants. Prior to the approval of the interim accounts by the board of directors, the Audit Committee met with the management and the external auditors to review the interim accounts and consider the significant accounting policies, and to discuss with the management the Group's internal control system.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the period with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Listing Rules with which it is required to report compliance.

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

During the six-month period ended 31 December 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 28 March 2001