



CHINA DIGICONTENT COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

**INTERIM REPORT
2000-2001**

INTERIM RESULTS

The board of directors (the “Board”) of China DigiContent Company Limited (the “Company”) announces the unaudited consolidated interim results (“Interim Accounts”) of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31st December, 2000 (the “Period”) together with the comparative figures for the corresponding period in 1999 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited six months ended 31st December,	
	Notes	2000 HK\$'000	1999 HK\$'000
Turnover	2	73,243	1,109,879
Cost of sales		<u>(79,178)</u>	<u>(1,042,284)</u>
Gross (loss)/profit		(5,935)	67,595
Other revenue		9,831	475
Other net loss		(12,110)	(36,680)
Distribution and selling expenses		(2,417)	(20,320)
General and administrative expenses		<u>(31,865)</u>	<u>(20,814)</u>
Loss from operations		(42,496)	(9,744)
Finance costs		<u>(10,353)</u>	<u>(12,902)</u>
Loss before taxation		(52,849)	(22,646)
Taxation	4	<u>382</u>	<u>(3,427)</u>
Loss after taxation		(52,467)	(26,073)
Minority interests		<u>4,218</u>	<u>1,181</u>
Loss attributable to shareholders		<u>(48,249)</u>	<u>(24,892)</u>
Loss per share			
— Basic	5	<u>(0.26) cents</u>	<u>(0.17) cents</u>
— Fully diluted		<u>N/A</u>	<u>N/A</u>

**CONDENSED CONSOLIDATED STATEMENT
OF RECOGNISED GAINS AND LOSSES**

	Unaudited six months ended 31st December,	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net losses not recognised in the consolidated income statement		
— Exchange differences arising from translation of the PRC subsidiaries accounts	(12,757)	(47,843)
Loss attributable to shareholders	<u>(48,249)</u>	<u>(24,892)</u>
Total recognised losses	<u><u>(61,006)</u></u>	<u><u>(72,735)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December, 2000 <i>HK\$'000</i>	Audited 30th June, 2000 <i>HK\$'000</i>
Property, plant and equipment	6	666,153	692,439
Current assets			
Inventories		119,430	58,449
Trade receivables	7	1,786,998	2,196,217
Bills receivables		633	3,046
Prepayments, deposits and other receivables		425,658	148,826
Due from Leading Spirit High-Tech (Holdings) Company Limited and its subsidiaries (the "LSH Group")		26,158	—
Cash and bank deposits		83,106	57,590
		2,441,983	2,464,128
Current liabilities			
Short-term interest-bearing borrowings		305,877	290,510
Current portion of obligations under finance leases and hire purchase contracts		57	3,152
Bills payable		121,966	111,227
Trade payables	8	124,706	332,598
Accruals and other payables		292,220	284,121
Due to minority shareholders of subsidiaries		9,235	9,314
Due to the LSH Group		—	52,017
Taxation payable		114,236	120,972
		968,297	1,203,911
Net current assets		1,473,686	1,260,217
Total assets less current liabilities		2,139,839	1,952,656
Non-current liabilities			
Non-current portion of obligations under finance leases and hire purchase contracts		—	13
Deferred taxation		106	106
Minority interest		82,930	88,548
		83,036	88,667
Net assets		2,056,803	1,863,989
Capital and reserves			
Issued capital	9	1,941,405	1,681,905
Reserves	10	115,398	182,084
Shareholders' equity		2,056,803	1,863,989

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited six months ended 31st December, 2000 HK\$'000
Net cash outflow from operating activities	(142,964)
Net cash outflow from returns on investments and servicing of finance	(8,886)
Total tax paid	(4,488)
Net cash outflow from investing activities	(6,621)
Net cash inflow from financing activities	<u>194,419</u>
Net increase in cash and cash equivalents	31,460
Cash and cash equivalents at beginning of period	(188,596)
Effect of foreign exchange rate changes	<u>(157)</u>
Cash and cash equivalents at end of period	<u><u>(157,293)</u></u>
Analysis of the balances of cash and cash equivalents	
Cash and bank deposits	83,106
Bank overdrafts	(17,187)
Bank and other borrowings with maturity within three months	<u>(176,786)</u>
	(110,867)
Less : pledged bank balances	<u>(46,426)</u>
	<u><u>(157,293)</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The Interim Accounts are unaudited and have been prepared in accordance with the requirements of the Rules (“Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited including compliance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants except that comparative figures for the consolidated cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The same set of accounting policies adopted in the 2000 annual accounts has been applied to the Interim Accounts. The notes on the Interim Accounts include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2000 annual accounts.

Certain comparative figures have been reclassified to conform with the current presentation as required under SSAP 1 (revised) “Presentation of financial statements”.

2. Principal Activities and Geographical Analysis of Operations

An analysis of the Group’s turnover and operating loss before taxation by principal activities and geographical locations for the Period is as follows:

	Unaudited turnover		Unaudited operating loss	
	six months ended		six months ended	
	31st December,		31st December,	
	2000	1999	2000	1999
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
By principal activities:				
Manufacture of electrical and electronic products	44,885	804,304	(40,066)	(9,010)
Trading of parts and components of electrical and electronic products	28,665	305,697	(958)	8,248
Others	(307)	(122)	(11,825)	(21,884)
	<u>73,243</u>	<u>1,109,879</u>	<u>(52,849)</u>	<u>(22,646)</u>
By geographical locations:				
The Hong Kong Special Administrative Region (“Hong Kong”)	—	110	(11,825)	(21,884)
People’s Republic of China, other than Hong Kong, Taiwan and Macau (the “PRC”)	73,243	1,109,769	(41,024)	(762)
	<u>73,243</u>	<u>1,109,879</u>	<u>(52,849)</u>	<u>(22,646)</u>

3. Depreciation

During the Period, depreciation of approximately HK\$20,626,000 (1999: HK\$20,265,000) was charged in respect of the Group's property, plant and equipment.

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Unaudited six months ended 31st December,	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong		
Charge for the Period	55	—
Overprovision in previous period	—	(5)
Elsewhere		
Charge for the Period	249	3,432
Overprovision in previous period	(686)	—
	<u>(382)</u>	<u>3,427</u>

5. Loss Per Share

(a) *Basic loss per share*

The calculation of basic loss per share for the six months ended 31st December, 2000 is based on the unaudited net loss attributable to shareholders of HK\$48,249,000 (1999: unaudited net loss attributable to shareholders of HK\$24,892,000) and the weighted average of 18,497,341,694 (1999: 14,527,109,818) ordinary shares in issue during the Period.

(b) *Diluted loss per share*

No diluted loss per share for the six months ended 31st December, 2000 and 31st December, 1999 is shown as the effect of the outstanding warrants and the share options during these two periods would be anti-dilutive.

6. Property, Plant and Equipment

For the Period, the Group acquired property, plant and equipment of approximately HK\$6.6 million.

7. Trade Receivables

The Group's sales are on open account basis. The credit terms given to the customers generally depend on the financial strength of individual customers. An ageing analysis of trade receivables as at 31st December, 2000 is as follows:

	Unaudited 31st December, 2000 HK\$'000
Within 3 months	22,239
4-6 months	51,336
7-9 months	255,539
10-12 months	267,440
over 1 year	<u>1,190,444</u>
	<u><u>1,786,998</u></u>

Included in trade receivables there was an amount of approximately HK\$1,721,991,000 (30th June, 2000: HK\$2,183,721,000) due from Jiangmen Conrowa Products Sales Company Limited, a major customer of the Group.

8. Trade Payables

An ageing analysis of trade payables as at 31st December, 2000 is as follows:

	Unaudited 31st December, 2000 HK\$'000
Within 3 months	30,406
4-6 months	4,140
7-9 months	4,165
10-12 months	5,280
over 1 year	<u>80,715</u>
	<u><u>124,706</u></u>

9. Share Capital

	Number of Shares 31st December, 2000 '000	HK\$'000
Issued and fully paid (ordinary shares of HK\$0.1 each)		
Beginning of Period	16,819,054	1,681,905
Issue upon share placement	<u>2,595,000</u>	<u>259,500</u>
End of Period	<u><u>19,414,054</u></u>	<u><u>1,941,405</u></u>

10. Reserves

Movements of reserves for the six months ended 31st December, 2000 are:

	Unaudited								Total
	Warrant		Capital reserve	Statutory Enterprises		Cumulative		Accumulated loss	
	premium	reserve		reserve	fund	Revaluation reserve	translation adjustments		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Beginning of period	47,504	30,311	5,279	6,980	107,638	50,857	5,696	(72,181)	182,084
Loss for the period	—	—	—	—	—	—	—	(48,249)	(48,249)
Expenditure on share placement	(5,680)	—	—	—	—	—	—	—	(5,680)
Translation adjustments	—	—	—	—	—	—	(12,757)	—	(12,757)
End of period	<u>41,824</u>	<u>30,311</u>	<u>5,279</u>	<u>6,980</u>	<u>107,638</u>	<u>50,857</u>	<u>(7,061)</u>	<u>(120,430)</u>	<u>115,398</u>

11. Capital Commitments

As at 31st December, 2000, the Group had capital commitments not provided for in the financial statements have analysed as follows:

	Unaudited 31st December, 2000 HK\$'000	Audited 30th June, 2000 HK\$'000
Authorised and contracted for		
— acquisitions of land and construction of buildings	512,025	520,583
— acquisitions of equipment and machinery	<u>6,343</u>	<u>6,449</u>
	<u>518,368</u>	<u>527,032</u>

12. Contingent Liabilities

As at 31st December, 2000, the Group had contingent liabilities not provided for in the financial statements:

	Unaudited 31st December, 2000 HK\$'000	Audited 30th June, 2000 HK\$'000
Corporate guarantee in respect of banking facilities granted to — the LSH Group	<u>392,603</u>	<u>476,834</u>

13. Connected Transactions

- (a) During the Period, the non wholly-owned subsidiaries of the Company had entered into the following connected transactions with each other on commercial terms basis:
- (i) Guangdong Conrowa Television Company Limited (“GCT”) purchased plastic casings and parts in the amount of approximately RMB14,103,000 (approximately HK\$13,080,000) (1999: RMB7,592,000, approximately HK\$6,722,000) from Dongling Washer Co, Ltd. Jiangmen (“DWC”). Both companies are non wholly-owned subsidiaries of the Company.
 - (ii) Jiangmen Dongning Air-Coner Company Limited (“JDA”) purchased plastic parts in the amount of approximately RMB194,000 (approximately HK\$180,000) (1999: RMB48,000, approximately HK\$43,000) from DWC. JDA is a non wholly-owned subsidiary of the Company.
 - (iii) GCT purchased printed circuit boards in the amount of RMB461,000 (approximately HK\$428,000) (1999: RMB573,000, approximately HK\$508,000) from Dongning Printed Circuit Board Company Limited which is a non wholly-owned subsidiary of the Company.
 - (iv) Certain of DWC’s land and buildings have been pledged to banks to secure banking facilities of approximately RMB54,740,000 (approximately HK\$50,771,000 (1999: RMB94,300,000, approximately HK\$83,503,000) granted to GCT. As at 31st December, 2000, the facilities of RMB46,500,000 (approximately HK\$43,129,000) had been utilised.
- (b) During the Period, the LSH Group and the Group had entered into the following connected transactions, on commercial term basis:
- (i) The Group utilised banking facilities provided by various banks to the LSH Group and the Group for which the LSH Group and/or the Group had given security and cross guarantees. As at 31st December, 2000, the total amount of such banking facilities utilised by the Group was approximately HK\$160,951,000 (1999: HK\$171,999,000). During the Period, the Group incurred interest for the amount of approximately HK\$439,000 (1999: HK\$2,069,000), which was paid for the utilisation of the LSH Group’s banking facilities.
 - (ii) The Group paid management fees in the amount of approximately HK\$654,000 (1999: HK\$178,000) to the LSH Group for the provision of the use of office premises, warehouses and the facilities therein in Hong Kong.
 - (iii) The Group paid transportation charges of approximately HK\$58,000 (1999: Nil) to the LSH Group for the provision of transportation services.
 - (iv) The LSH Group paid management fees in the amount of approximately HK\$7,772,000 (1999: Nil) to the Group for the provision of management, administrative, accounting and financial services.
 - (v) The Group paid rent in the amount of approximately HK\$3,257,000 (1999: Nil) to the LSH Group for the provision of the use of office premises and the facilities therein in Hong Kong.
- (c) The amount due from the LSH Group is unsecured, non-interest bearing and without pre-determined repayment terms.

14. Related Party Transactions

Save as the transactions with the LSH Group as disclosed in note 13 to the financial statements, there were no other significant recurring transactions carried out in the ordinary course of business between the Group and related parties during the Period.

15. Subsequent Event

On 8th March, 2001, Leading Spirit High-Tech (Holdings) Company Limited (“LSH”), the controlling shareholder of the Company, entered into a sale and purchase agreement with an independent third party (the “Purchase”) for the disposal (the “Proposed Disposal”) by LSH of 6,600 million shares in the Company, representing approximately 34% of the existing issued share capital of the Company. The Proposed Disposal is subject to the fulfillment of various conditions and is expected to be completed within 3 months’ time from the date of the agreement. As the Purchaser has the right to appoint new directors to the Board after completion of the Proposed Disposal, there may be changes in the management of the Company thereafter.

INTERIM DIVIDEND

The Board has resolved not to declare interim dividend for the six months ended 31st December, 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECTS

For the six months ended 31st December, 2000 (the “Period”), the Group recorded a turnover of approximately HK\$73.2 million (1999: HK\$1.1 billion). Loss attributable to shareholders for the Period increased from HK\$24.9 million for the corresponding period in 1999 to HK\$48.2 million.

Out of the total turnover, approximately 60% was attributable to the manufacture and sale of electrical home appliances mainly television sets with the remaining 40% deriving from the trading of electrical and electronic parts and components. The decrease in the total turnover was mainly attributable to the change in the Group’s credit sale policies with an aim in controlling its receivables to a comfortable level. In addition, the decline in the selling prices of television sets due to the severe competitive market environment in the PRC has further affected adversely in the turnover of the Group.

The loss from operations for the Period was approximately HK\$42.5 million (1999: HK\$9.8 million). The decrease in sales turnover and eroding gross profit margins (from gross profit margins of 6.1% for the previous year to gross loss margins of 8.1% for the Period) were the principal factors ascribing to the increase in operation loss.

With regard to the Company’s proposed establishment of a joint venture in the PRC for the production of WAP-enabled visual mobile phones, research and development works are still in progress.

On 8th March, 2001, Leading Spirit High-Tech (Holdings) Company Limited (“LSH”), the controlling shareholder of the Company, entered into a sale and purchase agreement with an independent third party (the “Purchaser”) for the disposal (“Proposed Disposal”) by LSH of 6,600 million shares in the Company, representing approximately 34% of the existing issued share capital of the Company. The Proposed Disposal is subject to the fulfillment of various conditions and is expected to be completed within 3 months’ time from the date of the agreement. As the Purchaser has the right to appoint new directors to the Board after completion of the Proposed Disposal, there may be changes in the management of the Company thereafter.

In the second half of the current financial year, the Group will continue to focus its resources on the manufacture and sales of television sets and electrical home appliances business. Meanwhile, it will continue its research and development on relatively high-tech products such as WAP-enabled visual mobile phones and digital television sets.

FINANCIAL RESOURCES

As at 31st December, 2000, the Group had a consolidated net asset value of approximately HK\$2,056.8 million (as at 30th June, 2000: HK\$1,864.0 million). The Group’s bank borrowings as at 31st December, 2000 amounted to approximately HK\$305.9 million, of which approximately HK\$28.7 million were new borrowings from banks in the PRC for the Period. The debt ratio and current ratio of the Group as at 31st December, 2000 were 0.47 and 2.52 respectively which showed an improvement in comparison to that of 0.65 and 2.05 as at 30th June, 2000.

During the Period, the Group paid a total amount of approximately HK\$10.2 million as principal repayment to its financial creditors. In addition, the Group issued 2,595 million new shares to raise net proceeds of approximately HK\$254.0 million to finance its working capital needs as well as to reduce its amount of outstanding debts due to the financial creditors.

DIRECTORS' INTERESTS

As at 31st December, 2000, the interests of the directors of the Company in the shares and options of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register required to be kept by the Company pursuant to the SDI Ordinance were as follows:

1. Share Capital

(a) *Interest in the Company*

Name of Directors	Number of Shares Held	Nature of Interest
Mr. Wong Shi Ling	190,646,526	Personal
	105,433,334	Family (Note)
Mr. Zheng Wei Chang	326,400	Personal
Ms. Yee Kit Lin, Anita	4,108,793	Personal

Note: These shares are held by Ms. To Kam Tai, the spouse of Mr. Wong Shi Ling.

(b) *Interest in the ultimate holding company — Leading Spirit High-Tech (Holdings) Company Limited ("LSH")*

Name of Directors	Number of LSH Shares Held	Nature of Interest
Mr. Wong Shi Ling	3,763,489,437	Personal
	1,330,443,654	Family (Note)
Mr. Ling Yun Biao	1,128,754	Personal
Mr. Zheng Wei Chang	4,000,000	Personal
Ms. Yee Kit Lin, Anita	1,833,332	Personal

Note: These shares are held by Ms. To Kam Tai, the spouse of Mr. Wong Shi Ling.

2. Share Options

(a) *Interest in the Company*

The following share options were granted to the directors of the Company and remained outstanding as at 31st December, 2000:

Name of Directors	Number of Share Options Held
Mr. Ling Yun Biao	30,000,000
Mr. Zheng Wei Chang	30,000,000
Ms. Yee Kit Lin, Anita	30,000,000
Mr. Liu Yun Feng	1,000,000

The share options were granted to the above directors on 29th January, 2000 entitling the holders to subscribe for shares of the Company at the subscription price of HK\$0.11 (subject to adjustment) per share at any time during the period from 29th January, 2001 to 28th January, 2003 pursuant to the share option scheme adopted by the Company.

(b) *Interest in the ultimate company — LSH*

The following share options were granted by LSH to the directors of the Company and remained outstanding as at 31st December, 2000:

Name of Directors	Number of LSH Share Options Held	
	<i>(Note 1)</i>	<i>(Note 2)</i>
Mr. Wong Shi Ling	150,000,000	70,000,000
Mr. Ling Yun Biao	12,500,000	10,000,000
Mr. Zheng Wei Chang	12,500,000	10,000,000
Ms. Yee Kit Lin, Anita	—	10,000,000
Mr. Liu Yun Feng	1,250,000	—

Notes:

1. The share options were granted by LSH to the above directors on 23rd July, 1999 entitling the holders to subscribe for shares of LSH at the subscription price of HK\$0.10 (subject to adjustment) per share at any time during the period from 23rd January, 2000 to 22nd January, 2002 pursuant to the share option scheme adopted by LSH.
2. The share options were granted by LSH to the above directors on 29th January, 2000, entitling the holders to subscribe for shares of LSH at the subscription price of HK\$0.21 (subject to adjustment) per share at any time during the period from 29th July, 2000 to 28th July, 2002 pursuant to the share option scheme adopted by LSH.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the Company had been notified of the following interest (other than that of the directors disclosed above) amounting to 10 percent or more of the issued share capital of the Company required to be disclosed pursuant to the SDI Ordinance:

Name	Number of Shares Held	Percentage of Issued Share Capital
LSH	8,996,458,487	46.34%
DB Trustees (Hong Kong) Limited	2,913,000,000 <i>(Note)</i>	15%

Note: These shares, which are beneficially owned by LSH and included in the above 8,996,458,487 shares, were pledged to DB Trustees (Hong Kong) Limited, which acted as the trustee of the financial creditors of the Company and its subsidiaries and associated companies, pursuant to a legal mortgage over shares dated 11th November, 1998.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial matters including a review of the Interim Accounts.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31st December, 2000 in compliance with the "Code of Best Practice" as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors of the Company are not appointed for a specific term.

By Order of the Board
Wong Shi Ling
Chairman

Hong Kong, 23rd March, 2001