

## REVIEW OF OPERATIONS

The Group's turnover amounted to HK\$348,877,000 for the six months ended 31 December 2000, compared with HK\$406,200,000 for the previous corresponding period. The reduction in turnover was due to the Group's realignment of product and service mix targeted at achieving enhanced return, in particular, discontinuing lower margin business activities, while focusing on high-margin value-add total communications systems and solutions.

Net profit for the six months ended 31 December 2000 was HK\$54,419,000, up 3.4 percent from the previous corresponding period figure of HK\$52,645,000, and earnings per share was HK14.7 cents. Performance of the European operations continued to improve due to effective cost management measures and refocusing of business strategies.

During the period under review, new products were added to the Group's WIN (wireless integrated networking) family of wireless solutions. Among the new introductions, Access 5000 provides 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. Existing clients in the industries of healthcare, emergency services, and hospitality were the initial targets for installation.

Meanwhile, the Group has continued to invest in web-based business solutions which would revamp existing clients' telecom networks, integrate wired and wireless access and applications, help them and their partners collaborate on the Net, automate business processes between companies, enable e-commerce, CRM, and supply chain management seamlessly and wirelessly in ways that were not possible in the past.

## PROSPECTS

In spite of the economic uncertainties, the Group will continue its prudent approach to invest in technology development to build the foundation for future growth. With China's approaching accession to World Trade Organisation and the promise of greater opportunities, the Group plans to adopt a more pro-active attitude in marketing and selling its well-established enterprise communications systems for installation in China. The focus will be on developing customised solutions and value-added services using its proprietary radio technologies and systems integration expertise.

## LIQUIDITY AND FINANCIAL RESOURCES

Management attitude towards financial planning has always been one of prudence, and throughout the years, the Group has maintained a net cash position. As at 31 December 2000, the Group had HK\$175,732,000 made up of cash, bank balances and deposits. Its current ratio was 1.7. Total bank borrowings were HK\$158,983,000, and the ratio of total bank borrowings to total equity was 0.29 at the end of the period under review. The Group finances its operations mainly with internally generated resources and banking facilities.

## **INTERIM DIVIDEND**

The directors of the Company have resolved that no interim dividend for the six months ended 31 December 2000 be paid to the shareholders of the Company. No dividend was declared in the previous period.

## **BONUS ISSUE OF SHARES AND CHANGE IN BOARD LOT SIZE**

The directors of the Company propose :-

- (a) a bonus issue of shares of the Company to the shareholders of the Company on the register of members on 23 April, 2001 on the basis of two shares of HK\$0.10 each of the Company (“Shares”) for every Share held by such shareholders on such date (the “Bonus Issue”); and
- (b) the board lot for trading on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) be changed from 2,000 Shares to 30,000 Shares upon completion of the Bonus Issue.

The Bonus Issue is conditional upon the approval of shareholders at an extraordinary general meeting of the Company and the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Shares to be issued pursuant to the Bonus Issue.

The directors of the Company consider that the Bonus Issue will enable the shareholders to further participate in the equity of the Company.

The proposed change in board lot size will reduce the costs and expenses of the Company and its shareholders in respect of issue and transfer of Shares.

A circular setting out the details of the Bonus Issue and change in board lot size and incorporating a notice of an extraordinary general meeting of the Company to approve the Bonus Issue will be sent to the shareholders of the Company as soon as practicable.

## **CLOSURE OF REGISTER OF MEMBERS**

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 will be effected.

All transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Share Registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 12 April 2001 in order to qualify for the Bonus Issue.

## DIRECTORS' INTERESTS IN SECURITIES

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 by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

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

### *Notes:*

1. 210,990,117 shares were held by Champion and 66,514,070 shares were held by Lawnside International Limited ("Lawnside"). Lawnside is wholly owned by Lanchester Limited which 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. These shares and warrants were 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 Champion 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, its ultimate holding company, Champion, and a fellow subsidiary, DIGITALHONGKONG.COM, each has a share option scheme under which employees, including executive directors, of the Company, Champion, DIGITALHONGKONG.COM or any of their subsidiaries may be granted options to subscribe for shares in the Company, Champion and DIGITALHONGKONG.COM respectively.

### (i) **The Company**

Pursuant to the Company's share option scheme, details of which are set out in note 23 to the financial statements as referred to in the Company's Annual Report 2000, certain directors have been granted options to subscribe for shares in the Company.

Kan Man Lee and each of Lai Yat Kwong and Michael Walker held options to subscribe for 7,000,000 shares and 5,000,000 shares respectively at an exercise price of HK\$0.3712 per share as at the beginning of the period and the options were still outstanding as at 31 December 2000 and expired on 4 February 2001.

**(ii) Champion**

As at 31 December 2000, the following directors held share options granted by Champion 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
Kan Man Lee	8 February 2000 to 7 February 2003	0.46560	1,000,000
Lai Yat Kwong	30 April 1999 to 29 April 2002	0.17328	15,000,000
	8 February 2000 to 7 February 2003	0.46560	1,000,000

**(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 year was the Company, its holding company, any of its subsidiaries or fellow 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 disclosed above under directors' interests in securities, 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 the 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 results 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  
**KAN Man Lee**  
*Chief Executive Officer*

Hong Kong, 28 March 2001