INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

The directors have declared an interim dividend of HK1.6 cents per share for the six months ended 31 December 2002 (2001: HK0.0625 cents per share before the adjustment for the share consolidation of 25 shares into 1 share in May 2002) to shareholders whose names appear on the register of members of the Company on 16 April 2003 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").

Total interim dividend for the period ended 31 December 2002 amounted to HK$10,089,000 (2001: HK$8,885,000), an increase of 14 percent.

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 16 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

The global economic and investment climate remained challenging during the period under review. The outbreak of war in the Middle East and fears of terrorist attacks further exacerbated the ongoing poor global economic performance. In spite of these adversities, the Group stayed on course with stable development of its core businesses.

Financial Results

For the six-month period ended 31 December 2002, the Group recorded a consolidated turnover of HK$937 million and net profit of HK$107 million, representing an increase of 20 percent and 5 percent respectively as compared to the same period last year (2001: HK$782 million and HK$101 million). Basic earnings per share for the interim period was HK18.5 cents (2001: HK21.0 cents).

During the period under review, the Group's gross profit increased by 29 percent to HK$468 million, a result of the Group's continued investment in product development. General and administrative expenses were reduced by 21 percent following the implementation of effective cost control measures. Depreciation and amortisation expenses increased by 86 percent, compared to the corresponding figures in the previous year's interim period, in line with revenue generated by some of the Group's new systems and networks. Distribution costs increased by 35 percent to HK$26 million as a result of increased turnover. The Group's Earnings before Interest, Taxation, Depreciation, and Amortisation (EBITDA) was HK$378 million, an increase of 45 percent over the previous corresponding period. Lower finance costs at HK$14 million (2001: HK$15 million) due to favourable interest rates enjoyed by the Group also helped to protect our profitability.

Review of Operations

China market remained robust contributing HK$744 million, or 79 percent of the Group's turnover, compared to HK$625 million or 80 percent in the last corresponding period. Turnover from Europe increased 25 percent to reach HK$137 million, representing 15 percent of total turnover.

The Group's focus on customised IT solutions continued, with new business concentrating on the development of industry-specific software systems and technical services. In terms of strategic investment, the Group announced in November 2002 an investment of 15 percent shareholding in 4G1 Inc., which focuses on the development of next generation mobile communications systems. With the additional wireless dimension, the Group is positioned to include in its portfolio future-proof wireless communications which can meet the dual challenges of seamless global coverage and interface with continuously emerging new standards and protocols in IP-based networks, targeted at serving the needs of fixed line and wireless networks for data, voice, and video services.

Kantone Holdings Limited (Kantone) continued to be the preferred supplier of mission critical communications services for the emergency and rescue services sectors. The budgetary constraints for IT purchases in major institutions and public sectors actually helped Kantone's business, as cost-effective narrowband communications infrastructure building on existing communications systems are preferred, especially in Europe and America. Sales to China remained on target, benefiting from the country's robust demand for telecommunications equipment and services, which has been building up with China's accession to the WTO.

Kantone introduced its Access Integrator Messaging System (AIMS), which features DECT, Messaging, TCP/IP, and Networking Messaging, and is capable of working with a variety of internal and external devices. Market response has been encouraging. Meanwhile, a new management team has been formed at Kantone's European operations, which implemented cell-based manufacturing, targeted at increasing operation efficiency; and closely aligning production levels to customer needs, thus giving the ability to reduce inventory for the benefit of customers and the Group.

DIGITALHONGKONG.COM (Digital HK) has adjusted and repositioned itself to expand its revenue base. Against a depressed market with customers freezing their IT budgets, Digital HK has implemented successfully cost control scheme in line with the level of business activities and increasing use of third party collaboration. It continued to pursue business in the digital and ecommerce arena. Service fees derived from technical consultation services remained the primary source of income.

Outlook

With the recent troubles in the Middle East, more uncertainties abound. Management is hopeful that the experience gained by the Group in riding various global and regional crises will help weather the current storm.

Meanwhile, the Group continues to invest for the future with new product introductions and strengthening of its distribution network. Several strategic investments are under evaluation and negotiation.

In view of the prolonged economic and geopolitical uncertainties, the Group is also studying a number of possibilities to further improve its organization structure and operational efficiency through better information management systems and realignment of corporate assets. Barring unforeseen circumstances, the Directors are confident that the Group is well-placed to meet the challenges in the years ahead.

LIQUIDITY AND FINANCIAL RESOURCES

Throughout the period, the Group had maintained a net cash position. As at 31 December 2002, the Group had HK$628 million made up of deposits, bank balances and cash. The gearing ratio at the period-end was 0.15 (30 June 2002: 0.16 restated), which calculation was based on the Group's total borrowings of HK$482 million (30 June 2002: HK$465 million) and shareholders' funds of HK$3,132 million (30 June 2002: HK$2,954 million restated).

Total borrowings comprise bank borrowings of HK$451 million (30 June 2002: HK$433 million); other borrowings, which represent block discounting loans, of HK$30 million (30 June 2002: HK$30 million); and obligations under finance leases of HK$1 million (30 June 2002: HK$2 million). The bank borrowings are mainly used as working capital for the Group. Finance costs for the six months ended 31 December 2002 amounted to HK$14 million (2001: HK$15 million).

As at 31 December 2002, certain land and buildings owned by subsidiaries of the Group with a net book value of HK$9 million (30 June 2002: HK$9 million) were pledged to a bank as security for banking facilities granted to the Group.

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk directly through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used.

Save as disclosed above, the information relating to matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") has not been changed materially from that disclosed in the annual report of the Company for the year ended 30 June 2002.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, 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 the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name	**Number of securities**
Securities of the Company	
Paul KAN Man Lok	*Note 1*
Securities of Kantone	
Paul KAN Man Lok	*Note 2*
Securities of Digital HK	
Paul KAN Man Lok	*Note 3*