# INTERIM REPORT 2003

DVN (Holdings) Limited

天地數碼(控股)有限公司

1304-05 China Resources Building 26 Harbour Road Wanchai Hong Kong

## CONTENT

*Pages*

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June 2003. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, as set out on pages 18 to 30 of this report.

## BUSINESS REVIEW

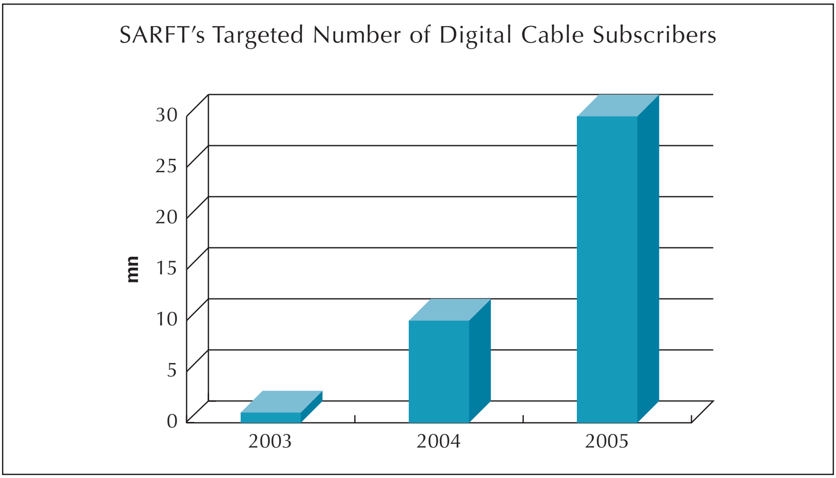
### Higher set top box ("STB") and subscription revenues, despite SARS

DVN's business environment has improved significantly as the government has announced its intention to migrate 30 million analog subscribers to digital by 2005. As a result, as more localities implement their digitalization plans, DVN has recorded sharply higher STB sales and subscription revenues. During the 1st half of 2003, set top box sales revenue increased 85% to HK$15.4 million.

The increased revenues were achieved in spite of the impact from SARS, which caused cable television stations to delay their digitalization plans, and to reduce promotional activities.

### Government announces aggressive new plan to completely migrate China to digital cable

In December of last year, China's State Administration for Radio Film and Television ("SARFT") announced its intention to convert 30 million subscribers to digital by 2005.



Subsequent to this announcement in May, SARFT issued another announcement that to expedite the migration to digital, cable television stations should put together detailed business plans to expedite the conversion to digital cable. As part of the business plans, SARFT suggests that cable operators should cut off the analog signal within a specific time frame, and completely migrate to a digital broadcasting platform. If cable operators do cut off the analog signal, the migration to digital could be much faster.

In this announcement, it clearly stated that the migration to digital should occur in four stages. In the first stage, most of the major cities, particularly along the coastal region of China should complete their digitalization by 2005. In the second stage, by 2008, almost all cities along the coastal region and major cities in the central parts of China should have completed the migration to digital. By the third stage in 2010, major cities in the western parts of China, and almost all cities in the central parts of China should have completed the migration. By the fourth stage in 2015, the digitalization migration should be complete.

**SARFT seeking to stimulate Pay TV demand by creating new pay TV channels**

In order to attract digital viewers, SARFT has announced plans to create 30 new pay TV channels, of which 10 are to be launched this year. Channels include movie channels, news channels, sports channels, and drama series channels.

**DVN has strong first mover advantages as it has already locked up some of China's most attractive cable operators**

This year, SARFT announced a list of 33 cities that will emphasize digitalization. These 33 cities have about 30 million analog subscribers. Among these cities, DVN has already established cooperation relationships with over 40% of these cities and together develop digital TV services via investment in digital broadcasting equipment, sales of equipment, system integration, or contracts to supply set top boxes and value added services.

First mover advantages are extremely important in the cable industry as early entrants set up digital broadcasting platforms, develop subscriber base, establish exclusive cooperation contracts and relationships that make entry for later competitors much more difficult. With this first mover advantage, DVN believes that it has established a strong base to grow its sales.


Lease Sale Combination System Integration

**DVN continues to expand, signing contracts with Shanghai, Hangzhou, Urumqi, Fujian, and Qingdao**

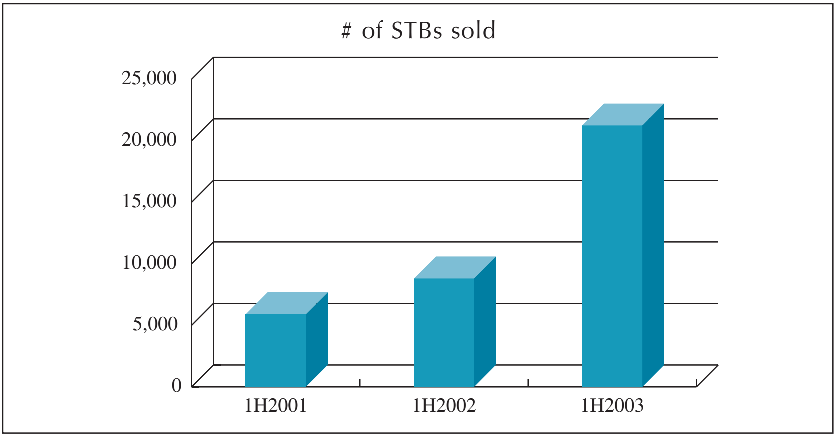
In January, DVN sold headend equipment to Fujian, and is currently supplying Fujian with set top boxes. A contract was signed with Shanghai in June to supply the municipal cable TV network company with set top boxes; while system integration contracts were signed with Urumqi, Hangzhou, and Qingdao.

The system integration contracts are a new development for DVN in which DVN agrees to supply all the middleware, control and application services software, and digital broadcasting expertise to ensure that a digital platform is up and running for a cable operator. DVN does not supply the actual headend hardware, and therefore does not incur any capital expenses. DVN receives a system integration fee, but does not receive any subscription fees in this arrangement. However, in exchange for providing software that enables various value added services, DVN receives 30-50% of the value added service revenues for the next 15-20 years. Value added services include: home shopping, online gaming, long distance education, online banking, television shopping, stock trading, TV short messaging, etc. Through this new business model, DVN does not incur any financial risk, while ensuring that it receives significant financial upside if value added services succeed in China.

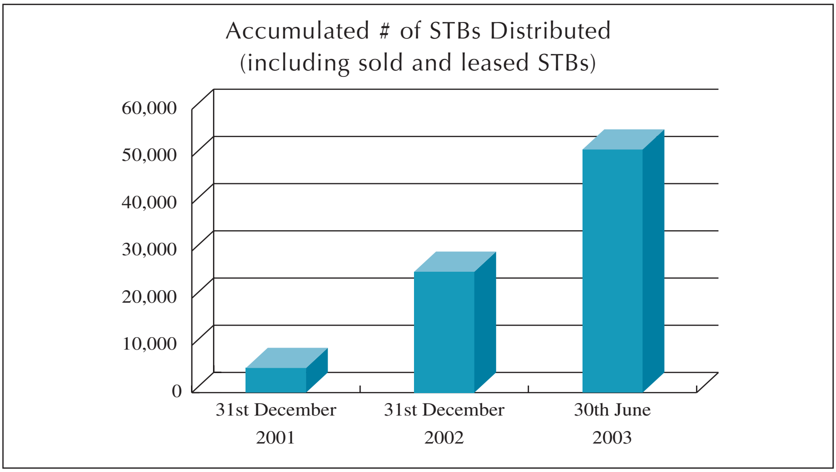
**Sales of set top boxes and subscriptions are accelerating**

DVN's set top box sales accelerated in 1H 2003, with the number increasing 141% year on year. Set top box sales were particularly strong in Suzhou, Fujian, Shanghai, and Shandong. Fujian began its digital rollout at the end of 2002, while Shanghai began its rollout in 1Q 2003.

**Number of STBs sold in 1st half surged 141% year on year**

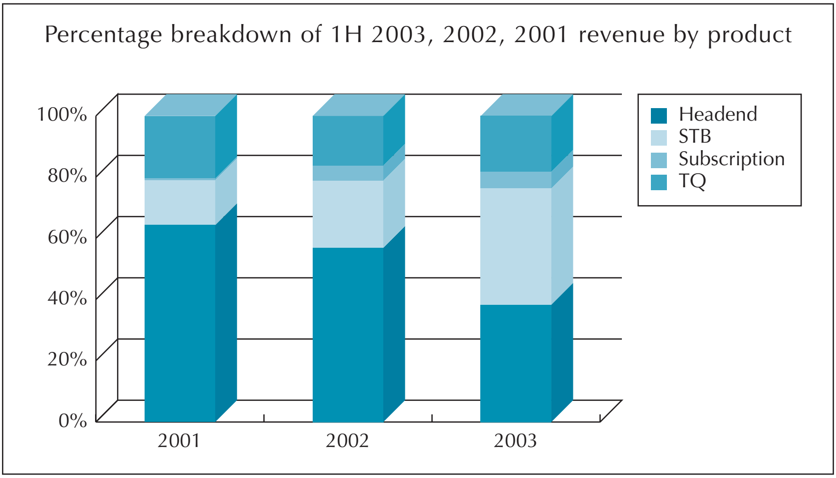



**Rapid increase in the number of households using DVN STBs**



## Set top box and subscription revenues now exceed headend revenues

In previous years, DVN received most of its revenues from the sale of headends. This year, revenues from sales of set top boxes and subscription revenues exceed those from sales of headends. For 2003, STB and subscription revenues of HK$17.6 million accounted for 43.2% of total sales compared to 26.6% in 2002 and 15.2% in 2001. On the other hand, headend revenues now account for only 38.1% of total revenues compared to 56.9% in 2002 and 64.4% in 2001.




This transition from headend sales to set top box and subscription sales is a natural progression as cable operators must first install the headends. Through these headend sales and through its leasing of headends in other localities, DVN is able to establish a base from which it can generate future revenues. After the headends are installed, the cable operator is able to sell set top boxes and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as the company will be able to generate considerably more revenues from set top boxes and the provision of services as compared to sales of headends.

## Significantly reduced STB and operational costs

DVN reduced its operational expenses significantly in the first half. R&D expenses were reduced by 22% year on year to HK$12.3 million while general administrative expenses dropped 19% year on year to HK$10.6 million. The total number of employees has been reduced by 18% year on year to 288 employees. Sales and marketing expenses were flat at HK$8.0 million.

DVN is also reducing the costs of its set top boxes. In the 1st half of 2003, DVN has been able to reduce STB costs by about 30%. As a result, DVN has been able to sign an increasing number of STB supply contracts. In addition to supplying STBs to its own operational areas, DVN will also supply STB's to Fujian, Shanghai, Jiangxi, Hangzhou, and Urumqi.

**Prospects**

**Transitioning from the investment phase to revenue generating phase**

Over the last several years, DVN has been in its investment phase, incurring losses as the company has spent funds on R&D and other operational costs needed to establish its presence in China. With digital rollouts now in progress, DVN expects to transition out of the investment phase and into the revenue generating phase.

With the government's continued push towards digitalization, DVN expects sales of STB's and subscription revenues to accelerate. In July 2003, SARFT formally announced a list of 33 cities that should immediately implement plans to go digital. Among these cities, DVN has established cooperation relationships that give DVN potential access to over 40% of SARFT's target of 30 million digital subscribers. For the 2nd half of 2003, at least four of these cities intend to implement plans to reduce the number of analog channels that current analog subscribers can view or to completely cut off the analog signal. DVN also has numerous relationships with other cities that are not on this list, but which will also be promoting digital services.

DVN has a significant market share of the set top box market in China. If SARFT is able to achieve its goal of migrating 10 million cable subscribers to digital in 2004 and 30 million in 2005, and DVN is able to maintain a definite market share, DVN will experience significant growth. To put the growth potential in perspective, if DVN reaches 30% of SARFT's 30 million goal, DVN will have sold 9 million set top boxes. DVN expects to breakeven on an EBITDA basis if it reaches only 1% of SARFT's 30 million goal.

Given DVN's dominant position in the digital cable TV sector, a number of local and foreign companies have expressed an interest in cooperating with DVN. DVN may enter into relationships with companies if these relationships lead to improved market position for DVN or provides DVN access to additional technology.

### Conclusion

The government has made a firm decision to convert its analog cable system to digital, with an initial goal of migrating 30 million analog cable subscribers to digital by 2005. Implementation of this decision will result in significant opportunities to sell set top boxes, to generate subscription revenues, and to generate other value added services such as home shopping, online gaming, online banking, distance learning, TV shopping, stock trading and TV short messaging.

DVN, as one of the first companies to have rolled out digital services, is well positioned to take advantage of this opportunity. For the 2nd half of 2003, DVN expects to rollout digital services into more areas throughout China. As more locations take the step to cut off analog services, DVN expects that STB sales and subscription revenues will rise sharply.

## FINANCIAL REVIEW

### Financial Results

Turnover of the Company for the six month period ended 30th June 2003 increased from HK$37.9 million for the same period in year 2002 to HK$40.7 million. Its loss from operations was reduced from HK$26.0 million for the first half of 2002 to a net loss of HK$17.2 million, which represents an improvement of 34% in the loss reduction. The increase in set top box revenue was nearly doubled from HK$8.3 million in the first half of 2002 to HK$15.4 million for the same period in 2003. This was due to the significant increase in set top box sales by nearly three times in quantity in comparison to the six months of 2002. This result is encouraging given the slow down in business during the SARS period. The subscription income increased by nearly 22% from HK$1.8 million to HK$2.2 million. Headend sales revenue was reduced as smaller scale of headend equipments was sold this period compared to first half of 2002 when more headends of larger installations were sold. However, offsetting the reduction in revenue from headend sales, total increase in set top box sales and subscription revenue was nearly doubled in this period compared to the last comparable period of 2002.

The reduction in operating loss for the first half of 2003 as compared to the same period of 2002 was due to a combination of gross profit generated from increased revenues of set top box sales and subscriptions, as well as a stringent exercise to reduce operating costs. The margins were normalized in this period when the older set top boxes carrying a higher manufacturing cost was cleared from inventory in the second half of 2002. The cost control exercise successfully reduced operating costs by 25% from HK$40.6 million in the first half of 2002 to HK$32.4 million in the comparable period of 2003. DVN will continue to control costs in the future periods.

Looking forward over the next twelve months, DVN expects growth in revenues as more subscribers sign on for digital TV services and several system integration contracts are finalized. It also expects that recurring revenues from sale of set top boxes and subscription income will account for a more significant portion of its revenues going forward, especially when SARFT has announced their full digitization plan for CATVs in China.

Revenues derived from the digital broadcasting business accounted for 82% (2002: 84%) of the total revenues for the first six months of 2003. Revenues from the provision of financial and consumer data accounted for 18% (2002: 16%).

**Cost of Sales & Gross Profit**

Cost of sales for the first six months of 2003 increased from HK$23.7 million in first half 2002 to HK$25.7 million, in proportion to the increase in turnover. Gross profit for the first six months of 2003 increased by 6% over that of the same period the year before, from approximately HK$14.2 million to approximately HK$15.0 million. The gross profit margin for the first half of year 2003 was 37% as compared to 38% for the same period of 2002 due to a change in the sales mix. Fewer high margin headends were sold compared to set top boxes and subscription income. Looking forward, as DVN's services are rolled out in China, DVN will continue to derive more of its revenues from subscriptions and the sales of set top boxes, whilst sales of headends will be reduced.

**Other Revenue and Other Operating Income**

Other revenue and operating income was reduced from HK$397,000 in the first half of 2002 to HK$173,000 for the comparable period in 2003. This decrease is primarily due to reduction in interest income and no gain on disposal of fixed assets in this period as compared to 2002.

### Marketing, Selling and Distribution Costs

Marketing, selling and distribution costs stayed flat by increasing less than 1% from HK$7.9 million in 2002 to HK$8.0 million in 2003 during the comparable first six months, despite the substantial increase in sales of set top boxes and subscriptions. It is expected that increase in turnover will lead to increase in marketing expenses in promotion, pre-sale activities and after sales services. The proportion of increase in cost was not as significant as the sales increase was partly due to stringent cost control in employees' salary, and partly due to a slow down in marketing activities during the SARS period in April and May this year. Therefore, the cost increase is proportionately less than generally expected. Looking forward, DVN expects selling and marketing expenses to increase in the second half of 2003 as selling and marketing activities return to normal, as well as the establishment of new offices needed to support operations in new locations.

### Administrative Expenses

Due to stringent cost control measures in 2003, total administrative expenses decreased by 21% from HK$28.8 million in 2002 to HK$22.9 million in 2003 during the comparable first six months in spite of increased operational activities. Administrative expenses include research and development expenses, and general administration expenses. Research and development expenses was reduced by 22% to HK$12.3 million, whilst general administrative expenses was reduced by 19% to HK$10.6 million.

### Other Operating Expenses

Other operating expenses decreased by 62% from HK$3.9 million in first six months of 2002 to HK$1.5 million for the comparable period in 2003. The reduction was partly due to the full amortization of some of the film rights in this period.

### Liquidity and Capital Resources

DVN has financed its growth primarily through internally generated cash and short term bank loans. As of 30th June 2003, its current ratio was 1.3 and its cash and bank balances amounted to HK$18.2 million. This is compared to a current ratio of 1.9 and cash and bank balances amounting to HK$17.5 million as of 31st December 2002. The lower current ratio in 2003 was due to the relative increase in current liabilities resulting from DVN raising new short term RMB denominated bank loans amounting to HK$42.7 million during the first half of 2003. DVN had no long-term debt liability outstanding as at 30th June 2003.

**Capital Structure of the Company**

There was no change in the capital structure of the company for the first half of 2003.

**Investment**

There was no change in investment holding during the first half of 2003.

**Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Schemes**

Including directors of the Group, as at 30th June 2003, the Group employed a total of 288 full-time employees, including 114 engineering and product development staff. Employees are offered discretionary year-end bonuses based on individual merit. Details of share option schemes were disclosed below.

**Share Options**

Pursuant to a ten-year share option scheme of the Company adopted on 12th May 1999 ("Old Scheme"), the board of directors of the Company may grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company. The subscription price is the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited ("SEHK") for the five trading days immediately preceding the offer of the option. The maximum number of shares in respect of which options may be granted under the scheme is limited to 10% of the number of issued shares of the Company from time to time. In addition, no eligible employee may be granted an option or options which the number of options would exceed 25% of the aggregate number of total options granted from time to time.

**Share Options** – *continued*

On 23rd August 2001, The Stock Exchange of Hong Kong Limited (the "SEHK") announced amendments to Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), which came into effect on 1st September 2001. Under the transitional arrangements stipulated in the amended Chapter 17 of the Listing Rules, options already granted before 1st September 2001 are not affected by the amended rules and the Group may have to alter the terms of the existing share option scheme, or adopt a new share option scheme before further options could be granted. In order to comply with the amendments to the Listing Rules and the announcement of the SEHK, the Company terminated the Old Scheme and adopted a new share option scheme ("New Scheme") at a Special General Meeting held on 26th June 2002 ("SGM").

The purpose of the New Scheme is to recognise and acknowledge the contributions of the Qualified Persons (as defined in the New Scheme, including but not limit to the directors, the employees, partners, associates and etc. of the Group and its shareholders) to the Group. Pursuant to this ten-year New Scheme, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. The total number of the shares issued and to be issued upon exercise of options granted to each Qualified person (including both exercised, cancelled and outstanding options) in any twelve-month period shall not exceed 1% of the shares then in issue. The maximum number of option shares that can be granted under the New Scheme shall not exceed 37,673,482 shares, which is 10% of the total number of shares in issue at the date of the SGM. Subscription price in relation to each option pursuant to the New Scheme shall be not less than the higher of (i) the closing price of the shares as stated in the SEHK's daily quotation sheets on the date on which the option is offered to an Qualified Person; (ii) the average of the closing prices of the shares as stated in the SEHK's daily quotation sheets for the five trading days immediately preceding the date of offer, or (iii) the nominal value of the shares. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the option period as determined by the board of directors of the Company.

**Share Options** – *continued*

No share options have been granted under the New Scheme for the period ended 30th June 2003. The details of movements of the outstanding share options are as follows:

Date of share options granted 1st September 2000
Exercise price HK$2.62
Exercise period 1st January 2001 – 31st December 2003

| | Outstanding options as at 1st January 2003 | Options exercised during the period | Options lapsed during the period | Outstanding options as at 30th June 2003 |
|---|---|---|---|---|
| Held by directors | – | – | – | – |
| Held by employees | 2,300,000 | – | – | 2,300,000 |
| Total | 2,300,000 | – | – | 2,300,000 |

Date of share options granted 2nd November 2000
Exercise price HK$1.50
Exercise period 1st January 2001 – 31st December 2003

| | Outstanding options as at 1st January 2003 | Options exercised during the period | Options lapsed during the period | Outstanding options as at 30th June 2003 |
|---|---|---|---|---|
| Held by directors | – | – | – | – |
| Held by employees | 5,900,000 | – | – | 5,900,000 |
| Total | 5,900,000 | – | – | 5,900,000 |

**Share Options** – *continued*

| | |
|---|---|
| Date of share options granted | 23rd July 2002 |
| Exercise price | HK$1.47 |
| Exercise period | 24th July 2002 – 23rd July 2005 |

| | Outstanding options as at 1st January 2003 | Options granted during the period | Options lapsed during the period | Outstanding options as at 30th June 2003 |
|---|---|---|---|---|
| Held by directors | 6,000,000 | – | – | 6,000,000 |
| Held by other qualified persons | 8,575,000 | – | – | 8,575,000 |
| Total | 14,575,000 | – | – | 14,575,000 |

**Charges on Group Assets**

The digital broadcasting system located at Suzhou was pledged to an independent third party company which guaranteed a short term bank loan to the Group amounted to RMB40 million.

**Contingent Liabilities**

The Group did not have any material contingent liabilities as at 30th June 2003.

**Exposure to Fluctuations in Exchange Rates and Related Hedges**

The Groups borrowings are primarily denominated in RMB. The Group has no significant exposure to foreign exchange fluctuations.

**Purchase, Sale or Redemption of Shares**

The Company has not redeemed any of its shares during the first six months of 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2003, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance ( the "SFO") and as recorded in the register required to be kept by the Company under Section 352 of the SFO, were as follows:

### (a) Ordinary shares of HK$0.10 each in the Company

| | | Number of shares | | |
|---|---|---|---|---|
| **Name** | *Notes* | **Personal interests** | **Family interests** | **Corporate interests** |
| Mr. Ko Chun Shun, Johnson | *(i)* | 343,000 | 2,040,816 | 158,357,940 |
| Ms. Cheung Sum Yu, Fiona | *(ii)* | 3,316,000 | – | 10,001,140 |
| Mr. Lui Pan, Terry | | 198,000 | – | – |

*Notes:*

(i) 118,403,418 ordinary shares in the Company are directly held by Prime Pacific International Limited ("Prime Pacific"), which is owned as to 67% and 33% by Gold Pagoda Incorporated ("Gold Pagoda") and Prime Gold International Limited ("Prime Gold"), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing Holdings Limited ("Kwan Wing"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Ko Chun Shun, Johnson ("Mr. Ko").

Gold Pagoda is a wholly-owned subsidiary of Universal Holdings Limited ("UHL"), a listed company in Hong Kong of which Mr. Ko has a controlling interest.

31,032,522 ordinary shares in the Company are held directly by Universal Appliances Limited ("UAL"), a wholly-owned subsidiary of UHL.

2,956,000 ordinary shares in the Company are held by All Mark Limited, a wholly-owned subsidiary of UHL.

1,600,000 and 1,222,000 ordinary shares in the Company are held by Peninsula Resources Limited and First Gain International Limited respectively. Both companies are wholly-owned by Mr. Ko.

3,144,000 ordinary shares in the Company are held by Kwan Wing.

2,040,816 ordinary shares in the Company are held by Ms. Cheung Yat Kwan, who is the spouse of Mr. Ko.

(ii) These shares are held by Gallium International Limited, which in turn is wholly-owned by Creative World International Limited, a company wholly owned by Ms. Cheung Sum Yu, Fiona.

**(b)** Million Way Enterprises Limited, a wholly-owned subsidiary of UHL, holds preference shares of face value of US$15,000,000 issued by DVN (Group) Limited, a wholly-owned subsidiary of the Company. These preference shares are exchangeable to approximately 24,786,780 ordinary shares in the Company at a conversion price of HK$4.69 per share, subject to adjustment.

**(c) Rights to acquire ordinary shares of the Company**

Details of the share options granted to certain directors during the period are as follows:

| Directors | Date of share options granted | Number of share options outstanding as at 1st January 2003 | Number of share options granted during the period | Number of share options cancelled/ lapsed during the period | Number of share options outstanding as at 30th June 2003 | Exercise period | Exercise price per share *HK$* |
|---|---|---|---|---|---|---|---|
| Mr. Ko Chun Shun, Johnson | 23/7/2002 | 3,000,000 | – | – | 3,000,000 | 24/7/2002 – 23/7/2005 | 1.47 |
| Mr. Lui Pan, Terry | 23/7/2002 | 3,000,000 | – | – | 3,000,000 | 24/7/2002 – 23/7/2005 | 1.47 |
| | 23/7/2002 | 1,000,000 | – | – | *1,000,000 | 24/7/2002 – 23/7/2005 | 1.47 |

* held by Ms. Chan Ping, an employee of the Group as well as the spouse of Mr. Lui Pan, Terry

Save as disclosed above, at no time during the period was the Company or its subsidiaries, a party to any arrangement to enable the Company's directors to acquire benefit by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, at no time during the period, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted or exercised, any rights to subscribe for shares in the Company and its associated corporations.

## SUBSTANTIAL SHAREHOLDERS

At 30th June 2003, save as disclosed under the section "Directors' interests in equity or debt securities" above, no other person had registered an interest of 10% or more in the issued share capital of the Company that would be required to be recorded under Section 336 of the SFO.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the SEHK at any time during the six months ended 30th June 2003.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2003 with the directors.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

*FOR THE SIX MONTHS ENDED 30TH JUNE 2003*

| | | Unaudited | |
|---|---|---|---|
| | | **Six months ended 30th June** | |
| | *Notes* | **2003** | 2002 |
| | | ***HK$'000*** | *HK$'000* |
| Turnover | *2* | **40,677** | 37,906 |
| Cost of sales | | **(25,676)** | (23,680) |
| Gross profit | | **15,001** | 14,226 |
| Other revenues | | **173** | 397 |
| Marketing, selling and distribution costs | | **(7,951)** | (7,919) |
| Administrative expenses | | **(22,871)** | (28,812) |
| Other operating expenses | | **(1,538)** | (3,927) |
| Operating loss | *3* | **(17,186)** | (26,035) |
| Finance costs | | **(596)** | (991) |
| Share of loss of a jointly controlled entity | | **(661)** | (212) |
| Loss before taxation | | **(18,443)** | (27,238) |
| Taxation | *5* | **–** | – |
| Loss before minority interests | | **(18,443)** | (27,238) |
| Minority interests | | **174** | 816 |
| Loss for the period | | **(18,269)** | (26,422) |
| Preference dividends | *6* | **(2,906)** | (3,182) |
| Loss attributable to ordinary shareholders | | **(21,175)** | (29,604) |
| Loss per share – basic | *7* | **(HK$0.06)** | (HK$0.08) |

## CONDENSED CONSOLIDATED BALANCE SHEET

*AS AT 30TH JUNE 2003*

| | Notes | Unaudited 30th June 2003 HK$'000 | Audited 31st December 2002 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 8 | **60,577** | 65,073 |
| Intangible assets | 8 | **40,614** | 37,911 |
| Long-term deposits | | **47,425** | 47,425 |
| Interest in a jointly controlled entity | | **8,396** | 9,057 |
| Investment securities | | **20,280** | 20,280 |
| | | **177,292** | 179,746 |
| **Current assets** | | | |
| Inventories | | **36,863** | 32,789 |
| Work in progress | | **12,213** | 15,245 |
| Amounts due from related companies/ former fellow subsidiaries | | **554** | 893 |
| Trade and other receivables, prepayments and deposits | 9 | **67,532** | 41,846 |
| Pledged bank deposits | | **–** | 1,950 |
| Bank balances and cash | | **18,192** | 17,493 |
| | | **135,354** | 110,216 |
| **Current liabilities** | | | |
| Trade payables, accruals and other payables | 10 | **60,233** | 57,292 |
| Bank loans, secured | | **42,654** | 1,896 |
| | | **102,887** | 59,188 |
| **Net current assets** | | **32,467** | 51,028 |
| **Total assets less current liabilities** | | **209,759** | 230,774 |
| **Financed by:** | | | |
| Share capital | 11 | **37,673** | 37,673 |
| Reserves | | **50,150** | 70,991 |
| Shareholders' funds | | **87,823** | 108,664 |
| Minority interests | | **121,936** | 122,110 |
| | | **209,759** | 230,774 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*FOR THE SIX MONTHS ENDED 30TH JUNE 2003*

| | Unaudited<br>Six months ended 30th June<br>**2003**<br>***HK$'000*** | <br><br>2002<br>*HK$'000* |
|---|---|---|
| Net cash used in operating activities | **(36,559)** | (20,196) |
| Net cash used in investing activities | **(5,789)** | (20,648) |
| Net cash inflow from financing | **43,047** | 22,557 |
| Increase/(decrease) in cash and cash equivalents | **699** | (18,287) |
| Cash and cash equivalents at 1st January | **17,493** | 51,202 |
| Cash and cash equivalents at 30th June | **18,192** | 32,915 |
| Analysis of balances of cash and cash equivalents: | | |
| Bank balances and cash | **18,192** | 32,915 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30TH JUNE 2003*

| | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Ordinary share capital** | **Preference share capital** | **Share premium** | **Contributed Surplus** | **Accumulated losses** | **Exchange reserve** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| At 1st January 2003 | **37,673** | **–** | **102,123** | **222,122** | **(253,132)** | **(122)** | **108,664** |
| Exchange differences | | | | | | **334** | **334** |
| Net gains or losses not recognised in the profit and loss account | | | | | | **334** | **334** |
| Loss for the period | | | | | **(21,175)** | | **(21,175)** |
| At 30th June 2003 | **37,673** | **–** | **102,123** | **222,122** | **(274,307)** | **212** | **87,823** |

| | Unaudited | | | | | | |
|---|---|---|---|---|---|---|---|
| | Ordinary share capital | Preference share capital | Share premium | Contributed Surplus | Accumulated losses | Exchange reserve | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st January 2002 | 31,051 | 70,674 | 280 | 222,122 | (110,833) | 899 | 214,193 |
| Exchange differences | | | | | | (54) | (54) |
| Net gains or losses not recognised in the profit and loss account | | | | | | (54) | (54) |
| Loss for the period | | | | | (29,604) | | (29,604) |
| Conversion of preference shares | 4,765 | (70,050) | 65,285 | | | | – |
| Redemption of preference share | | (624) | | | | | (624) |
| Issue of ordinary shares | 1,857 | | 37,142 | | | | 38,999 |
| Share issue expenses | | | (585) | | | | (585) |
| At 30th June 2002 | 37,673 | – | 102,122 | 222,122 | (140,437) | 845 | 222,325 |

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2003:

| | |
|---|---|
| SSAP 12: | Income taxes |
| SSAP 34 (revised): | Employee benefits |

There is no material impact to the financial results and the financial position of the Group by the adoption of the new or revised SSAPs mentioned above.

Certain comparative figures have been reclassified to conform to the current period's presentation.

## 2. Segment information

**Primary reporting format – business segments**

The group is principally engaged in the services and design, integration and installation of digital broadcasting systems and development of related software and products and the provision of international financial market information and selective consumer data.

An analysis of the Group's revenue and results for the period by business segments is as follows:

| | 6 months ended 30th June 2003 | | |
|---|---|---|---|
| | Services and design, integration and installation of digital broadcasting systems and development of related software and products | Provision of international financial market information and selective consumer data | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 33,312 | 7,365 | 40,677 |
| Segment results | (17,840) | 654 | (17,186) |
| Operating loss | | | (17,186) |
| Finance costs | | | (596) |
| Share of loss of a jointly controlled entity | (661) | | (661) |
| Loss before taxation | | | (18,443) |
| Taxation | | | – |
| Loss before minority interests | | | (18,443) |
| Minority interests | | | 174 |
| Loss for the period | | | (18,269) |
| Preference dividends | | | (2,906) |
| Loss attributable to ordinary shareholders | | | (21,175) |

| | 6 months ended 30th June 2002 | | |
|---|---|---|---|
| | Services and design, integration and installation of digital broadcasting systems and development of related software and products | Provision of international financial market information and selective consumer data | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 31,751 | 6,155 | 37,906 |
| Segment results | (23,856) | (2,179) | (26,035) |
| Operating loss | | | (26,035) |
| Finance costs | | | (991) |
| Share of loss of a jointly controlled entity | (212) | | (212) |
| Loss before taxation | | | (27,238) |
| Taxation | | | – |
| Loss before minority interests | | | (27,238) |
| Minority interests | | | 816 |
| Loss for the period | | | (26,422) |
| Preference dividends | | | (3,182) |
| Loss attributable to ordinary shareholders | | | (29,604) |

There are no sales or other transactions between the business segments.

**Secondary reporting format – geographical segments**

The Group's two business segments operate in three main geographical areas:

(i) Mainland China – Services and design, integration and installation of digital broadcasting systems and development of related software and products

(ii) Hong Kong – Provision of international financial market information and selective consumer data

(iii) Other Southeast Asia countries – Provision of international financial market information and selective consumer data and services and design, integration and installation of digital broadcasting systems and development of related software and products.

An analysis of the Group's turnover and contribution to operating results for the period by geographical segment is as follows:

| | Turnover 6 months ended 30th June | | Operating profit/(loss) 6 months ended 30th June | |
|---|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Mainland China | **33,303** | 30,694 | **(17,876)** | (23,369) |
| Hong Kong | **5,713** | 4,495 | **563** | (1,100) |
| Other Southeast Asian countries | **1,661** | 2,717 | **127** | (1,566) |
| | **40,677** | 37,906 | **(17,186)** | (26,035) |

Sales are based on the country in which the customer is located. There are no sales between the segments.

**3. Operating loss**

Operating loss is stated after crediting and charging the following:

| | 6 months ended 30th June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Crediting | | |
| Gain on disposal of fixed assets | – | 33 |
| Charging | | |
| Cost of inventories sold | **24,084** | 19,641 |
| Staff costs *(note 4)* | **10,881** | 14,896 |
| Depreciation: | | |
| Owned fixed assets | **8,387** | 6,676 |
| Leased fixed assets | – | 61 |
| Amortisation of deferred development costs and film rights | **1,513** | 3,907 |

## 4. Staff costs

| | 6 months ended 30th June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Wages and salaries | **17,568** | 21,614 |
| Termination benefits | **327** | – |
| Contributions to the defined contribution schemes | **994** | 1,555 |
| Less: Costs capitalised | **(8,008)** | (8,273) |
| | **10,881** | 14,896 |

## 5. Taxation

No profits tax has been provided as the Group did not generate any assessable profits in Hong Kong or overseas during the six months ended 30th June 2003 (2002: Nil).

No deferred tax asset has been recognized relating to tax losses as the recoverability of this potential deferred tax assets is uncertain.

## 6. Preference dividends

| | 6 months ended 30th June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| The Company | | |
| Dividends on 5% redeemable, convertible preference shares | **–** | 276 |
| DVN (Group) Limited | | |
| Dividends on 5% exchangeable preference shares | **2,906** | 2,906 |
| | **2,906** | 3,182 |

7. **Loss per share**

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK$21,175,000 (2002: HK$29,604,000) and on the weighted average of 376,734,826 (2002: 360,539,115) ordinary shares in issue during the period.

No diluted loss per share is shown for the two six months ended 30th June 2003 and 2002 because the share options and exchangeable preference shares outstanding had an anti-dilutive effect on the basic loss per share for both periods.

8. **Capital expenditure**

| **6 months ended 30th June 2003** | **Deferred development costs** *HK$'000* | **Films rights** *HK$'000* | **Total intangible assets** *HK$'000* | **Fixed assets** *HK$'000* |
|---|---|---|---|---|
| Opening net book amount | 22,241 | 15,670 | 37,911 | 65,073 |
| Development costs recognized as an asset | 4,172 | – | 4,172 | – |
| Additions | 55 | – | 55 | 3,947 |
| Disposals | (11) | – | (11) | (56) |
| Depreciation/amortization charge | (622) | (891) | (1,513) | (8,387) |
| Closing net book amount | 25,835 | 14,779 | 40,614 | 60,577 |

9. **Trade and other receivables, prepayments and deposits**

Included in trade and other receivables, prepayments and deposits are trade debtors and their ageing analysis is as follows:

| | **30th June 2003** *HK$'000* | 31st December 2002 *HK$'000* |
|---|---|---|
| 0 – 30 days | **15,739** | 2,737 |
| 31 – 60 days | **327** | 575 |
| 61 – 90 days | **–** | – |
| Over 90 days | **16,157** | 21,243 |
| | **32,223** | 24,555 |

Credit period of 30 to 60 days is normally granted to customers except for the sales of digital broadcasting systems and related software and products to an investee company in prior years.

**10. Trade payables, accruals and other payables**

Included in trade payables, accruals and other payables are trade creditors and their ageing analysis is as follows:

| | **30th June 2003** *HK$'000* | 31st December 2002 *HK$'000* |
|---|---|---|
| 0 – 30 days | **3,799** | 2,366 |
| 31 – 60 days | **–** | – |
| 61 – 90 days | **–** | 48 |
| Over 90 days | **9,746** | 17,321 |
| | **13,545** | 19,735 |

**11. Share capital**

| | **Authorised** | | | |
|---|---|---|---|---|
| | **5% redeemable, convertible preference shares of HKD1.50 each** | | **Ordinary shares of HKD0.10 each** | |
| | *No. of shares* | *HK'000* | *No. of shares* | *HK'000* |
| At 1st January 2003 and 30th June 2003 | 83,250,000 | 124,875 | 800,000,000 | 80,000 |

| | **Issued and fully paid** | | | |
|---|---|---|---|---|
| | **5% redeemable, convertible preference shares of HKD1.50 each** | | **Ordinary shares of HKD0.10 each** | |
| | *No. of shares* | *HK'000* | *No. of shares* | *HK'000* |
| At 1st January 2003 and 30th June 2003 | – | – | 376,734,826 | 37,673 |

## 12. Contingent liabilities

The Group had no significant contingent liabilities at the balance sheet date.

## 13. Commitments

### (a) Commitments under operating leases

At 30th June 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | Land and buildings | |
|---|---|---|
| | **30th June 2003** | 31st December 2002 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **3,187** | 2,289 |
| In the second to fifth year inclusive | **1,312** | 478 |
| | **4,499** | 2,767 |

### (b) Financial commitments

At 30th June 2003, the Group had financial commitments of RMB39,316,000 (approximately HK$37,266,000) (at 31st December 2002: RMB42,481,000 (approximately HK$40,266,000)) in respect of registered capital contributions to one PRC subsidiary and one PRC joint venture (at 31st December 2002: two PRC subsidiaries and one PRC joint venture). Included in the above financial commitments, RMB5,316,000 (approximately HK$5,039,000) (2002: HK$6,889,000) was paid before balance sheet date but the capital verification process has not been completed.

On 13th May 2003, the Group cancelled its previously announced proposed joint venture with 福建恒達投資有限公司（"福建恒達"） as the Group decided to sell headend equipment in exchange for cash instead of investing into the said proposed joint venture with 福建恒達. Hence, there was no financial commitments as at 30th June 2003 in respect of capital contributions to the said proposed joint venture.

### (c) Capital commitments

At 30th June 2003 and 31st December 2002, the Group had no material capital commitments in respect of the purchase of digital broadcasting equipment and fixed assets.

**14. Related party transactions**

| | 6 months ended 30th June | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Sales of digital broadcasting systems to a jointly controlled entity | **272** | 14,252 |
| Service fee income from a jointly controlled operation | **420** | 265 |

**15. Disclosure pursuant to Practice Note 19 of the Listing Rules**

In accordance with the requirement under paragraph 3.2.1 of Practice Note 19 of the Listing Rules, the directors of the Company report the details of advance to Sichuan New Tech Digital Equipment Co., Ltd. ("NTC") as at 30th June 2003 as follows:

| | **Total** |
|---|---|
| | *HK$'000* |
| Deposit placed with NTC | 18,957 |

The advance was a deposit placed with NTC in order to engage NTC to develop certain technical know-how in relation to digital TV network and equipment technology. Such deposit shall be refunded if NTC is unable to complete, at DVN Group satisfaction, the development such know-how before 31st January 2004. Detailed information please refer to the announcement made on 6th May 2003.

By order of the Board
**Lui Pan**
*President*

Hong Kong, 11th September 2003