

2003/04

**Champion
Technology**
Holdings Limited

Champion Technology Holdings Limited (www.championtechnology.com) (stock code 092) is the holding company of a communications software group of companies, with subsidiaries specialising in wireless technologies formed in 1930s, and software development established in 1987. Capitalising on its wireless transmission and information software experience, the Group has successfully integrated different communications technologies into a comprehensive range of solutions and services. The Group's solutions include software-enhanced wireless messaging, radio products and systems, as well as networking and Internet access products for consumers, network operators, and commercial, government and industrial customers.

In recognition of the potential of the digital economy and digital convergence, the Group has in recent years been focusing on a number of fundamental Internet solutions, especially in the arena of wireless Internet, covering the aspects of speed, capacity of access, security and authentication, digital content creation, and e-Commerce. The Group's objective is to build on its global and regional presence to promote its e-services, especially in China.

The Group has a global presence in more than 50 countries through a network of regional offices and distributors, and it includes 3 Hong Kong listed companies and a former London listed company. Champion Technology Holdings Limited has a primary listing on The Stock Exchange of Hong Kong Limited.



CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

INTERIM REPORT

For the six months ended 31 December 2003

HIGHLIGHTS

- Net profit of HK\$148 million, up 39%
- Net cash position with low gearing
- Interim dividend of HK1.6 cents per share

SUMMARY OF GROUP RESULTS

The unaudited condensed consolidated interim results of Champion Technology Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) for the six months ended 31 December 2003 (the “Interim Accounts”) together with comparative figures for the corresponding period last year are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

		Six months ended 31 December	
	NOTES	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	3	973,683	937,230
Direct operating expenses		(551,165)	(468,909)
Gross profit		422,518	468,321
Other operating income		10,616	8,776
Distribution costs		(50,941)	(25,883)
General and administrative expenses		(78,138)	(69,156)
Depreciation and amortisation	4	(117,208)	(241,400)
Research and development		(3,478)	(4,504)
Profit from operations		183,369	136,154
Gain on disposal of subsidiaries		50	–
Finance costs		(11,189)	(14,279)
Profit before taxation		172,230	121,875
Taxation	5	(468)	(754)
Profit before minority interests		171,762	121,121
Minority interests		(23,787)	(14,468)
Net profit for the period		147,975	106,653
Dividends	6	15,456	10,089
Earnings per share	7		
– Basic		20.2 cents	18.5 cents
– Diluted		19.3 cents	16.8 cents

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2003**

		As at 31 December 2003 <i>HK\$'000</i> (Unaudited)	As at 30 June 2003 <i>HK\$'000</i> (Audited)
	<i>NOTES</i>		
Non-current assets			
Property, plant and equipment	8	82,681	93,670
Systems and networks		1,345,126	1,262,865
Interest in e-commerce projects		364,386	390,499
Interest in telecommunications projects		340,963	360,202
Investments in securities		569,313	194,633
Interest in an associate		–	46,500
Deposits		612,300	396,240
		<hr/> 3,314,769 <hr/>	<hr/> 2,744,609 <hr/>
Current assets			
Inventories		36,809	35,214
Trade and other receivables	9	676,403	911,836
Amount due from an associate		–	14,200
Taxation recoverable		744	1,034
Deposits, bank balances and cash		814,212	573,142
		<hr/> 1,528,168 <hr/>	<hr/> 1,535,426 <hr/>
Current liabilities			
Trade and other payables	10	138,744	108,517
Warranty provision	11	2,061	2,058
Retirement benefits obligations		83,546	78,114
Customers' deposits		61,574	23,374
Taxation payable		219	46
Bank borrowings			
– amount due within one year		170,441	322,384
Other borrowings			
– amount due within one year		10,867	8,191
Obligations under finance leases			
– amount due within one year		288	519
		<hr/> 467,740 <hr/>	<hr/> 543,203 <hr/>
Net current assets		<hr/> 1,060,428 <hr/>	<hr/> 992,223 <hr/>
Total assets less current liabilities		<hr/> 4,375,197 <hr/>	<hr/> 3,736,832 <hr/>

		As at 31 December 2003 HK\$'000 (Unaudited)	As at 30 June 2003 HK\$'000 (Audited)
Minority interests		322,095	301,144
Non-current liabilities			
Bank borrowings			
– amount due after one year		162,606	167,907
Other borrowings			
– amount due after one year		9,110	13,605
Obligations under finance leases			
– amount due after one year		229	334
Convertible bonds		74,086	42,888
Deferred taxation		187	190
		246,218	224,924
Net assets		3,806,884	3,210,764
Capital and reserves			
Share capital	<i>12</i>	96,601	66,430
Reserves	<i>13</i>	3,710,283	3,144,334
Shareholders' funds		3,806,884	3,210,764

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

	Six months ended	
	31 December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
At 1 July	3,210,764	2,954,358
Issue of shares upon exercise of warrants	74,148	7
Issue of shares upon conversion of convertible bonds	31,197	3,900
Issue of shares as consideration to acquire an investment in securities	175,000	68,400
Issue of shares under placement	171,559	–
Exchange difference arising on translation of operations outside Hong Kong	(3,759)	(1,737)
Net Profit for the period	147,975	106,653
At 31 December	<u>3,806,884</u>	<u>3,131,581</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

	Six months ended	
	31 December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	614,704	140,009
Net cash used in investing activities	(502,864)	(149,134)
Net cash from financing	164,619	6,671
Increase (decrease) in cash and cash equivalents	276,459	(2,454)
Cash and cash equivalents at beginning of the period	489,945	490,374
Effect on foreign exchange rate changes	575	(3,876)
Cash and cash equivalents at end of the period	766,979	484,044
Analysis of the balances of cash and cash equivalents		
Deposits, bank balances and cash	814,212	627,885
Bank overdrafts	(47,233)	(143,841)
	766,979	484,044

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2003**

1. BASIS OF PREPARATION

The unaudited condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Group for the year ended 30 June 2003, except that the Group has adopted, for the first time in the current period, SSAP No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the HKSA.

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. TURNOVER AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into five main operating business – sales of general systems products, provision of services and software licensing, leasing of systems products, and investments in telecommunications projects and e-commerce projects. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products <i>HK\$'000</i>	Provision of services and software licensing <i>HK\$'000</i>	Leasing of systems products <i>HK\$'000</i>	Investments in telecommuni- cations projects <i>HK\$'000</i>	Investments in e-commerce projects <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 31 December 2003						
TURNOVER						
External and total revenue	<u>637,987</u>	<u>267,231</u>	<u>8,522</u>	<u>43,218</u>	<u>16,725</u>	<u>973,683</u>
RESULTS						
Segment result	<u>37,485</u>	<u>95,783</u>	<u>6,329</u>	<u>26,390</u>	<u>16,191</u>	182,178
Interest income						6,628
Unallocated corporate expenses						(5,437)
Profit from operations						183,369
Gain on disposal of subsidiaries						50
Finance costs						(11,189)
Profit before taxation						172,230
Taxation						(468)
Profit before minority interests						171,762
Minority interests						(23,787)
Net profit for the period						<u>147,975</u>
Six months ended 31 December 2002						
TURNOVER						
External and total revenue	<u>601,447</u>	<u>223,323</u>	<u>9,321</u>	<u>64,005</u>	<u>39,134</u>	<u>937,230</u>
RESULTS						
Segment result	<u>63,197</u>	<u>91,145</u>	<u>(1,028)</u>	<u>26,496</u>	<u>(43,148)</u>	136,662
Interest income						5,931
Unallocated corporate expenses						(6,439)
Profit from operations						136,154
Finance costs						(14,279)
Profit before taxation						121,875
Taxation						(754)
Profit before minority interests						121,121
Minority interests						(14,468)
Net profit for the period						<u>106,653</u>

4. DEPRECIATION AND AMORTISATION

	Six months ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
Amortisation of systems and networks	100,258	64,429
Amortisation of investments in e-commerce projects	–	82,177
Amortisation of investments in telecommunications projects	–	54,408
Depreciation on:		
Owned assets	16,652	39,577
Assets under finance leases	298	809
	117,208	241,400

5. TAXATION

	Six months ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	380	687
Taxation in other jurisdictions	88	67
	468	754

Hong Kong Profits Tax is calculated at 17.5% (2002: 17.5%) on the estimated assessable profits derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax.

6. DIVIDENDS

Dividend represents interim dividend of HK1.6 cents per share (2002: HK1.6 cents per share), in scrip form with a cash option.

The interim dividend is based on 966,007,634 shares in issue at 31 December 2003.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended	
	31 December	
	2003	2002
	HK\$'000	HK\$'000
Earnings for the purpose of calculating basic earnings per share	147,975	106,653
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	330	442
Earnings for the purpose of calculating diluted earnings per share	<u>148,305</u>	<u>107,095</u>
	Number of shares (In '000)	
	Six months ended	
	31 December	
	2003	2002
Weighted average number of shares for the purpose of calculating basic earnings per share	<u>731,284</u>	<u>576,853</u>
Effect of dilutive potential ordinary shares		
Convertible bonds	16,422	58,809
Warrants	19,938	–
	<u>36,360</u>	<u>58,809</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>767,644</u>	<u>635,662</u>
Diluted earnings per share	<u>19.3 cents</u>	<u>16.8 cents</u>

8. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value at 1 July 2003	93,670
Currency realignment	2,804
Additions	3,250
Transfer to stock	(1)
Disposals	(92)
Depreciation	(16,950)
	82,681
Net book value at 31 December 2003	82,681

At 31 December 2003, certain land and buildings of the Group with a net book value of HK\$9,700,000 (30 June 2003: HK\$9,524,000) were pledged to a bank as security for banking facilities granted to the Group. Gain on disposal of property, plant and equipment of the Group amounted to HK\$23,000 for the period.

9. TRADE AND OTHER RECEIVABLES

At 31 December 2003, the balance of trade and other receivables included trade receivables of HK\$381,253,000 (30 June 2003: HK\$634,098,000). The aging analysis of trade receivables at the reporting date is as follows:

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
0 – 60 days	261,726	278,958
61 – 90 days	65,176	79,454
91 – 180 days	51,569	246,056
> 180 days	2,782	29,630
	381,253	634,098

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days.

10. TRADE AND OTHER PAYABLES

At 31 December 2003, the balance of trade and other payables included trade payables of HK\$76,047,000 (30 June 2003: HK\$13,063,000). The aging analysis of trade payables at the reporting date is as follows:

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
0 – 60 days	61,690	2,994
61 – 90 days	8,700	3,996
91 – 180 days	2,820	3,406
> 180 days	2,837	2,667
	<hr/> 76,047 <hr/>	<hr/> 13,063 <hr/>

11. WARRANTY PROVISION

	<i>HK\$'000</i>
At 1 July 2003	2,058
Currency realignment	156
Additional provision	756
Utilisation of provision	(909)
At 31 December 2003	<hr/> 2,061 <hr/>

The warranty provision represents management's best estimate of the Group's liability under 12 month warranties granted on manufactured products, based on prior experience and industry average for defective products.

12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised share capital of HK\$0.10 each:		
Balance at 1 July 2003	30,000,000,000	3,000,000
Balance at 31 December 2003	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid share capital of HK\$0.10 each:		
Balance at 1 July 2003	664,300,351	66,430
Issue of shares upon exercise of warrants	63,837,527	6,384
Issue of shares upon conversion of convertible bonds	25,569,756	2,557
Issue of shares as consideration to acquire an investment in securities	100,000,000	10,000
Issue of shares under placement	112,300,000	11,230
Balance at 31 December 2003	<u>966,007,634</u>	<u>96,601</u>

During the period, the following changes in the issued and fully paid share capital of the Company took place:

- (a) a total of 63,837,527 shares of HK\$0.10 each of the Company were issued at HK\$1.1615 per share pursuant to the exercise of subscription rights under the warrants of the Company by warrant holders.
- (b) convertible bonds with the principal amount of US\$4,000,000 were converted into 25,569,756 shares of HK\$0.10 each of the Company at a price ranging from HK\$1.1337 to HK\$1.3273 per share;
- (c) 100,000,000 shares of HK\$0.10 each of the Company were issued at HK\$1.75 per share as consideration for the acquisition of 15% interest in New Atlantic International Limited on 18-21 November 2003; and
- (d) 112,300,000 shares of HK\$0.1 each of the Company were issued at HK\$1.61 per share under a top-up placing on 16 December 2003;

Warrants

On 23 December 2003, the Company announced a bonus issue of new warrants to its shareholders on the register of members on 30 January 2004. A total of 194,501,407 units of warrants with subscription rights to subscribe a maximum aggregate amount of HK\$326,762,364 for shares were issued on 5 February 2004. Each unit of warrant entitles its holder to subscribe for shares of the Company at an initial subscription price of HK\$1.68 per share of HK\$0.10, subject to adjustment, from the date of issue thereof until 7 February 2005.

13. RESERVES

	Share premium HK\$ '000	Dividend reserve HK\$ '000	Capital		Capital reserve HK\$ '000	Goodwill reserve HK\$ '000	Merger reserve HK\$ '000	Translation reserve HK\$ '000	Accumulated profits HK\$ '000	Total HK\$ '000
			redemption reserve HK\$ '000	General reserve HK\$ '000						
At 1 July 2003	417,170	17,272	50	1,366,003	105,495	(396,184)	8,358	(259)	1,626,429	3,144,334
Premium arising from issue of shares										
- upon exercise of warrants	67,764	-	-	-	-	-	-	-	-	67,764
- upon conversion of convertible bonds	28,640	-	-	-	-	-	-	-	-	28,640
- as consideration to acquire an investment in securities	165,000	-	-	-	-	-	-	-	-	165,000
- under placement	160,329	-	-	-	-	-	-	-	-	160,329
Exchange difference arising on translation of operations outside Hong Kong	-	-	-	-	-	-	-	(3,759)	-	(3,759)
Net profit for the period	-	-	-	-	-	-	-	-	147,975	147,975
Dividend for the period	-	15,456	-	-	-	-	-	-	(15,456)	-
At 31 December 2003	<u>838,903</u>	<u>32,728</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>(396,184)</u>	<u>8,358</u>	<u>(4,018)</u>	<u>1,758,948</u>	<u>3,710,283</u>

14. CAPITAL COMMITMENTS

	As at 31 December 2003 HK\$ '000	As at 30 June 2003 HK\$ '000
Capital expenditure in respect of property, plant and equipment and system and networks:		
Contracted for but not provided in the financial statements	58,500	42,900
Authorised but not contracted for	<u>237,301</u>	<u>180,306</u>
	<u>295,801</u>	<u>223,206</u>

15. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

The Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and machinery and equipment which fall due as follows:

	As at 31 December 2003		As at 30 June 2003	
	Land and buildings HK\$ '000	Machinery and equipment HK\$ '000	Land and buildings HK\$ '000	Machinery and equipment HK\$ '000
Operating leases which expire:				
Within one year	2,255	810	2,134	2,753
In the second to fifth year inclusive	<u>5,013</u>	<u>4,298</u>	<u>5,427</u>	<u>3,599</u>
	<u>7,268</u>	<u>5,108</u>	<u>7,561</u>	<u>6,352</u>

Leases are negotiated for terms of one to four years and rentals are fixed for terms of one to four years.

The Group as lessor

The Group had contracted with tenants in respect of plant and machinery and telecommunications networks which fall due as follows:

	As at 31 December 2003 HK\$'000	As at 30 June 2003 HK\$'000
Operating leases which expire:		
Within one year	10,031	8,489
In the second to fifth year inclusive	16,745	14,825
After five years	582	799
	<u>27,358</u>	<u>24,113</u>

INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

The directors have resolved to pay an interim dividend of HK1.6 cents per share for the six months ended 31 December 2003 (2002: HK1.6 cents per share), to be satisfied by way of allotment of new shares in the form of scrip to shareholders whose names appear on the Register of Members of the Company on 19 April 2004. Shareholders entitled to such interim dividend will have the option to receive such dividend (or part thereof) in cash in lieu of such allotment (the "scrip dividend scheme").

The scrip dividend scheme is subject to the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of 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 together with the form of election will be sent to the shareholders of the Company as soon as practicable.

The relevant certificates for the new shares and dividend warrants will be dispatched to those entitled on or before 16 June 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 13 April 2004 to 19 April 2004, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the above interim dividend and the scrip dividend scheme, all transfers, accompanied by the relevant share certificates, and in the case of warrant holders, 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, Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on 8 April 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

The global economy has generally recovered from the war in Iraq and SARS in the period under review. Amidst an improved operating environment and a more conducive investment sentiment, the Group had reported steady progress in its major business activities.

Financial Results

The Group achieved a turnover of HK\$974 million for the six months ended 31 December 2003 (the "Period"), an increase of 3.9 per cent as compared with HK\$937 million for the six months ended 31 December 2002 (the "Previous Period").

Profit attributable to shareholders was HK\$148 million, an increase of 39 per cent as compared with HK\$106.7 million for the Previous Period. Earnings before interest, tax, depreciation and amortisation ("EBITDA") was HK\$301 million (2002: HK\$378 million). Basic earnings per share for the Period were HK20.2 cents (2002: HK18.5 cents).

The overall improved performance during the Period reflected strong recurrent demand for the Group's products. Some customer orders which were deferred in the midst of SARS were resumed during the period. As a result of the Group's continued investment in product development, the Group has made good progress in strengthening its leadership position in providing customised communications solutions for niche markets.

The Group's net profit was helped by lower depreciation and amortisation allowances of HK\$117 million (2002: HK\$241 million) due to the reorganisation of some of its business activities, and positive contribution from its investments in IT projects.

The Group's finance costs were also lower at HK\$11 million (2002: HK\$14 million) with the help of an issue of convertible bonds in September 2003, and a private share placement completed in December 2003, proceeds of which have helped to reduce the Group's reliance on borrowing for its working capital requirements.

Review of Operations

China market remained stable, marked by continuing demand for communications equipment and integrated solutions, which was little affected by SARS in the Period. China sales accounted for HK\$745 million of the Group's turnover (2002: HK\$744 million).

The Group also reported stable business in Europe, where some earlier installations at hospitals and fire services were due for replacement and upgrades. Turnover attributable to the operations in Europe was HK\$158 million (2002: HK\$137 million). Meanwhile, sales to other markets including the US and South America was in line with the Group's overall performance.

The Group continued to focus on customised IT solutions, with new business concentrating on software enhanced wireless messaging, radio products and systems, as well as network and Internet access products and solutions for niche market segments. In terms of strategic investment, the Group announced in November 2003 an investment of 15 per cent interest in New Atlantic International Limited (“New Atlantic”) for a consideration of HK\$175 million which was satisfied by the Company’s issue of 100 million shares. New Atlantic focuses on the development of telematics and vehicle safety electronics devices pertaining to safe driving.

In the areas of Internet and e-commerce, the Group continued to build its customer base and expand its service offerings. Y28 Innovations, the Group’s flagship portal and Internet data center, has added new content channels targeted at paid subscribers, and new shopping sites offering a broad range of merchandise and healthcare products have been installed.

Kantone Holdings Limited (Kantone)

Overall performance of Kantone for the Period was satisfactory. It recorded a turnover of HK\$463 million, an increase of 16 per cent over Previous Period. Net profit was HK\$55.3 million, representing an improvement of 65 per cent compared with HK\$33.6 million of Previous Period.

Kantone continued to be the preferred supplier of mission critical communications services for the emergency and rescue service sectors, accounting for about 60 per cent of the UK healthcare market, and about 85 per cent of the UK fire services. It also made steady progress in the US market, driven by changes in the local radio regulations, which require both existing and new networks to operate in the new specified narrowband radio spectrum. Kantone’s wireless messaging products are FCC (Federal Communications Commission) and NTIA (National Telecommunications and Information Administration) approved, and have great potential in both commercial and government markets, particularly in the Veterans Administration (which owns a chain of hospitals in the US dedicated to the veterans) which, by government regulations, must update or replace all its hospital communications systems with narrowband messaging in the next several years.

DIGITALHONGKONG.COM (Digital HK)

Digital HK remained profitable in the Period. As the general economic environment improves, Digital HK will continue to look for growth opportunities and strive for better performance. With a comfortable net cash position, the company intends to seek new opportunities that allow it to grow from its existing core operations of providing e-commerce enabling solutions.

PROSPECTS

With better global economic prospects and China’s continued robust economy, the Directors are confident that the Group will be well-positioned to benefit from further business growth. In order for the Group to be able to seize the exciting and enormous business opportunities, in particular those in China, investment activities in technology projects will continue to be pursued, and strategic alliances and co-operation with industry leaders and international technology partners will be forged.

FINANCIAL POSITION

Liquidity and Financial Resources

The Group's financial position remains strong with a low debt leverage and a net cash position. In September 2003, the Group issued a new tranche of convertible bonds - Tranche 2 in the aggregate principal amount of US\$8 million (equivalent to approximately HK\$62.4 million) pursuant to the Subscription Agreement entered into by the Company and Credit Suisse First Boston (Hong Kong) Limited in May 2002 for the issue of up to US\$24 million 1.5 per cent unlisted and unsecured convertible bonds due 2005. Net proceeds raised amounted to HK\$60.4 million. In December, the Group completed a share placement which raised net proceeds of approximately HK\$171 million. The new money totalling approximately HK\$231 million was mainly used as general working capital.

As at 31 December 2003, the Group had HK\$814 million made up of deposits, bank balances and cash. The gearing ratio at the period-end was 0.11 (30 June 2003: 0.17), which calculation was based on the Group's total borrowings of HK\$428 million (30 June 2003: HK\$556 million) and shareholders' funds of HK\$3,807 million (30 June 2003: HK\$3,211 million).

The reduced level of borrowing was the result of the Group's equity financing undertaken during the Period. The new funds helped the Group to reduce its reliance on borrowing to meet its working capital requirements.

Total borrowings comprise bank borrowings of HK\$333 million (30 June 2003: HK\$490 million); other borrowings, which represent block discounting loans, of HK\$20 million (30 June 2003: HK\$22 million); obligations under finance leases of HK\$1 million (30 June 2003: HK\$1 million); and convertible bonds of HK\$74 million (30 June 2003: HK\$43 million). Finance costs for the Period amounted to HK\$11.2 million (Previous Period: HK\$14.3 million).

As at 31 December 2003, certain land and buildings of the Group with a net book value of HK\$9.7 million (30 June 2003: HK\$9.5 million) were pledged to a bank as security for banking facilities granted to a subsidiary of 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 through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instrument will be used.

Post Interim Results Development

In February 2004, the Company raised a total of approximately HK\$226 million through a placement of 143 million shares to independent investors at HK\$1.68 per share. Such proceeds will be used as general working capital.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

At 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Capacity/Nature of interest	Number of shares	Approximate percentage of issued share capital
<i>Securities of the Company</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	303,202,605 (Note 1)	31.39%
<i>Securities of Kantone</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	1,665,025,122 (Note 2)	74.97%
<i>Securities of Digital HK</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	119,969,171 (Note 3)	79.98%

Notes:

- 303,202,605 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 Mr. Paul Kan Man Lok and his family members and staff of the Company and its subsidiaries. Currently, only Mr. Paul Kan Man Lok and his family members are discretionary objects of the trust. As at 31 December 2003, Lawnside held approximately 31.39% of the entire issued share capital of the Company.
- 1,265,940,702 shares were held by the Company and 399,084,420 shares were held by Lawnside.
- 117,300,000 shares were held by the Company and 2,669,171 shares were held by Lawnside.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as at 31 December 2003.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than share option schemes, at no time during the period under review 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 the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

During the period under review, no option was granted, exercised, cancelled, lapsed or outstanding under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons (other than a director or chief executive of the Company disclosed under "Directors' Interests and Short Positions in Securities" section) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares and underlying shares:

Name	Capacity/ Nature of interest	Number of shares and underlying shares	Approximate percentage of issued share capital
Lawnside	Beneficial interest	303,202,605*	31.39%
Credit Suisse Group	Interest of controlled corporation	63,019,127#	6.52%
Aeneas Capital Management Lp	Investment manager	70,298,000	7.28%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	64,530,000	6.68%

* See Note 1 in the "Directors' Interests and Short Positions in Securities" section.

The figure includes 61,032,193 underlying shares that Credit Suisse Group was interested in through derivatives detailed below.

Long positions in underlying shares (in respect of derivatives):

Name	Capacity/ Nature of interest	Nature of derivatives	Number of underlying shares
Credit Suisse Group	Interest of controlled corporation	convertible bonds and subscription rights	60,557,522
Credit Suisse Group	Interest of controlled corporation	warrants	474,671

Short positions in shares:

Name	Capacity/ Nature of interest	Number of shares	Approximate percentage of issued share capital
Credit Suisse Group	Interest of controlled corporation	1,985,804	0.21%

Saved as disclosed herein and disclosed under “Directors’ Interests and Short Positions in Securities” section, the Company had not been notified of any person, other than a director or chief executive of the Company, having interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the period.

AUDIT COMMITTEE

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

CORPORATE GOVERNANCE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 December 2003, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 23 March 2004