INTERIM REPORT 2004

DVN (Holdings) Limited

天地數碼(控股)有限公司

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CONTENTS

The directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30th June 2004. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2004, and the consolidated balance sheet as at 30th June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 19 to 32 of this report.

BUSINESS REVIEW

Motorola makes strategic investment into DVN.

Motorola and DVN have agreed to work together in order to become China's leading suppliers of digital equipment and services. As part of this arrangement, Motorola has agreed to invest up to a maximum of US$33 million in four tranches (equivalent to approximately HK$257.4 million). If Motorola invests the maximum, it will own over 30% of the total ordinary shares of DVN. Motorola has already invested US$7.5 million in the first tranche.

In addition, DVN has entered into a series of strategic agreements with Motorola and its subsidiaries, that are designed to accelerate the successful deployment of digital broadcasting solutions to cable operators in China. The agreements provide for product distribution and technology development and engineering services between the two companies.

DVN will use the proceeds of the investment for capital expenditure to upgrade the existing digital systems of the Group, research and development, and general working capital. Motorola agreed to hold the ordinary shares of DVN that are acquired pursuant to the subscription agreement for one year after completion of the first tranche investment, subject to certain conditions remaining satisfied during that period. Motorola is entitled to appoint a Board seat under the terms of the agreement.

DVN now has the world's leading provider of digital cable technology as its partner.

By working together, DVN and Motorola will be able to capitalize on each company's respective strengths, and hence accelerate the deployment of digital set top boxes. With video, data, and voice beginning to converge around the world, Motorola with its strengths in broadband and hardware, and DVN with its presence in China and strengths in application software for the China market, will be able to provide the technology to facilitate this convergence in China.

With the agreements, DVN gains as a strategic partner, the world's leading provider of digital cable technology; and ensures that DVN remains a technology market leader in China. Motorola is involved in all aspects of digital broadband technology, from headend system solutions to consumer terminal products, and is the market leader for set-top terminals in the United States. With Motorola, DVN will now have a strategic partner with the requisite experience and expertise to help ensure that its digital cable deployments are successful.

Together, DVN and Motorola will develop new products to ensure the market leadership of both companies, with Motorola also gaining access to DVN's research and development team. And, through Motorola's manufacturing expertise and economies of scale, DVN may be able to manufacture more affordable and higher quality set top boxes.

Furthermore, by utilizing Motorola's distribution channels, DVN may be able to sell its software outside of China, particularly in developing markets. DVN's base in China, where it has access to a low cost, but highly skilled labor force, enables it to produce middleware and application products at a fraction of the cost it would take to develop in more developed markets.

Digital rollouts in China have been slower than SARFT's expectations, but meeting in Foshan confirms SARFT's commitment to mass STB deployments.

In December 2002, China's State Administration for Radio and Film Transmission (SARFT) announced its intention to convert 30 million subscribers to digital by 2005, with 1 million to be migrated to digital in 2003 and 10 million by the end of 2004. However, SARFT has fallen behind its original target as local cable operators in 2003 have been slow in implementing their digital rollout plans.

However, in July, SARFT held a national level meeting among cable operators, again reiterating its commitment to digitizing the country's cable system. At this meeting, it asked cable operators to follow the Qingdao and Foshan models, where rollouts have been relatively successful. Both Qingdao and Foshan are territories in which DVN has supplied the digital cable equipment, and where DVN has had an influence in developing the business model. In both these locations, subscribers do not pay for the set top box, but are instead given the set top box for free. The cost of the set top boxes is recovered through higher subscription and value added service fees.

SARFT indicates that banks may provide financing for STBs.

SARFT further announced that the State Development Bank was considering providing several billion RMB to finance the distribution of STBs. The loans are to be repaid over a very generous ten-year period. Financing has been one of the major obstacles to mass deployment of STBs. Therefore, funding by China's banks under these generous repayment terms would remove one of the last remaining obstacles to a more rapid rollout.

CCTV establishes new company to create more digital content.

DVN's prospects are also likely to improve as more digital content becomes available. At the beginning of this year, CCTV established a new company called DTV Media Company Ltd. Set up with an investment of RMB300 million (US$36 million), the company's mandate is to create content for digital channels. The company has been given more freedom than regular, tightly controlled networks. For example, its channels will be allowed to show popular western police dramas that are currently banned due to their violent content. DTV is also looking at establishing joint ventures to bring in western content on to its digital channels. In a survey conducted by media research company CSM and the Beijing Broadcasting Institute, 74% of participants said they were willing to pay for digital TV channels.

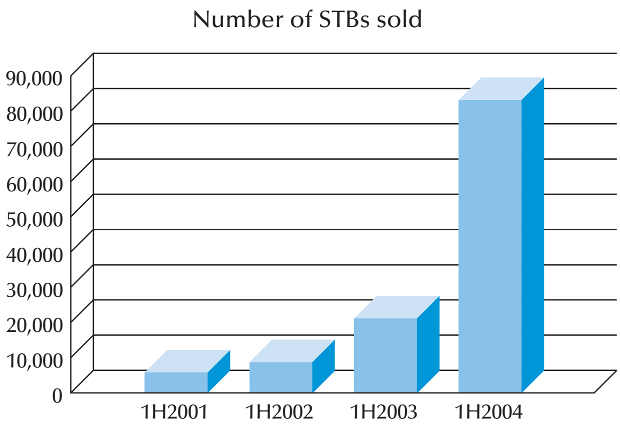
DVN selected to be one of only four companies that will provide conditional access for CCTV's digital content.

Given the "must have" nature of content from CCTV, DVN was pleased to be selected as one of only four companies that will be allowed to provide conditional access ("CA") for CCTV's digital content. This means that any cable operator that wants to receive CCTV digital content must use either DVN's CA or one of the other three selected companies CA if it wants to receive this content. As a result, DVN will have a competitive advantage in winning future contracts from local cable operators.

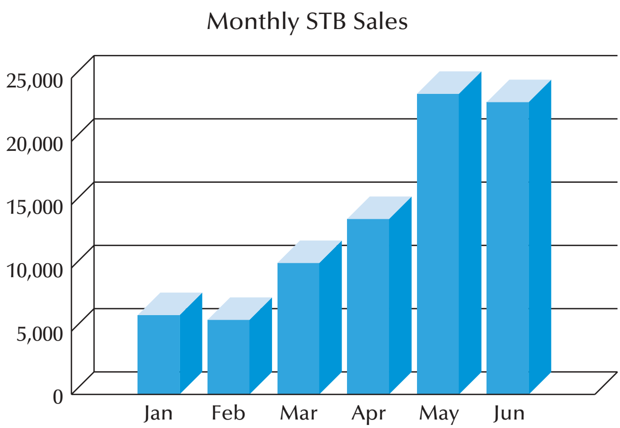
DVN's STB revenues surge as rollouts begin to accelerate in Qingdao and Foshan.

DVN's STB revenues has surged as more localities begin to execute on SARFT plans to migrate the country's cable television system to digital. DVN's set top box sales accelerated in 1H 2004, with the number of STBs sold increasing 292% YoY to over 80,000 set top boxes. Set top box sales were particularly strong in Qingdao, Hangzhou and Foshan. During the 1st half of 2004, set top box sales revenue surged 173% to HK$42 million.

Number of STB sold in 1st half surged 292% year on year



Monthly STB sales reflect upward trend

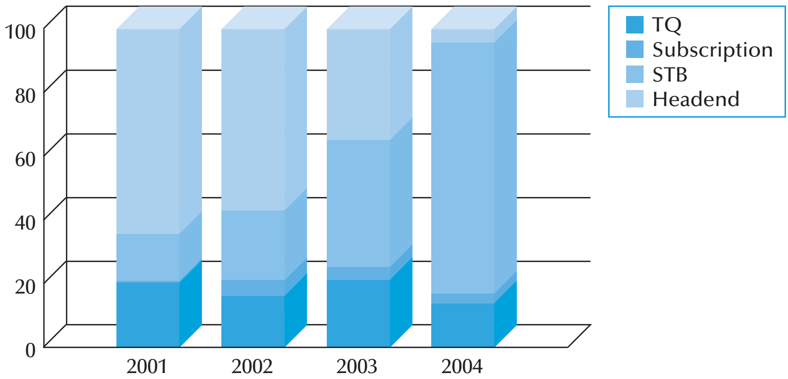


Set top boxes now account for the majority of DVN's revenues.

Over the last several years, set top box revenues have shown a clear upward trend. As a result, STB revenues now account for the vast majority of DVN's revenues. For 2004, STB revenues now account for over 70% of total revenues, compared to 43% in 2003.

Revenues from sale of STBs now dominate.

Percentage breakdown of 1H 2004, 2003, 2002 and 2001 revenues by product



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.

Despite higher revenues, DVN's net loss declined only slightly given lower sales of higher margin headends and lower than expected subscription revenues.

Because of the reduction in sales of the higher margin headends from HK$15.5 million in 2003 to HK$2.6 million in 2004, DVN's loss from operations declined only marginally from a loss of HK$17.2 million for the first half of 2003 to HK$15.4 million for the first half of 2004. One reason for the decline in headend sales is that DVN had not yet integrated its products with Motorola. This integration is now almost completed, and should lead to higher headend sales in the second half. Another reason for the decline is that DVN is now placing more emphasis on the sale of set top boxes given their higher sales potential.

Subscription revenues declined by 14% from HK$2.2 million to HK$1.9 million. One reason is that although DVN is selling more STBs to areas where it is not entitled to subscription revenues, most of the sites where DVN is entitled to a share of the subscription revenues are still depending on sales of STBs directly to the customers instead of having it financed by the cable operator – a model whose growth rates are much lower than the giveaway model. Also, some cable operators have decided to give old subscribers who had previously purchased their STB a temporary subscription fee holiday given that new subscribers are now given the STB for free.

DVN continues to reduce STB costs, and receives awards for its technology.

DVN continues to succeed in reducing the costs of its set top boxes. In the 1st half of 2004, 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.

While DVN has cut costs for its STB, it has received a number of awards for its technology, including:

1. In February 2004, DVN's in-house developed Conditional Access System (CAS) is certified by SARFT and awarded Grade A certificate.
2. In May 2004, DVN received the "Best Set Top Box Award" from Sohu and the Committee of China Broadcasting Network (CCBN).
3. In June 2004, based on consumer responses, DVN received the "Best Digital STB Quality & STB Brand" in China from People's Daily Market & Media Centre.

DVN is also exploring the potential for STBs that can work on both cable and IP networks.

DVN has signed an agreement with Orient Network TV, a subsidiary of Shanghai Media Group, to supply boxes capable of both IP and DVB broadcasting for subscribers who have access to broadband in Shanghai. DVN will also supply the video server and service platform. There are currently about one million potential subscribers in Shanghai who have access to a home broadband network; however, only about 10% people are actually subscribing. Actual subscribers are currently paying about RMB30/month for broadband internet services. Through DVN's STB, subscribers will be able to watch video programs on a pay per view basis over IP. This same set top box will enable viewer to watch DVB over cable, and may therefore be very attractive to cable operators who are also seeking to increase their number of subscribers.

PROSPECTS

DVN believes its new relationship with Motorola will strengthen its already leading market position in China. Motorola's strengths in hardware and DVN's strengths in software complement each other and will provide DVN new market opportunities.

With the government's continued push towards digitalization, DVN expects sales of STBs to increase. Over the next several months Qingdao and Foshan will continue their aggressive rollouts in which they are essentially cutting off the analog service to their users. DVN expects other cities to follow, especially if banks provide the necessary financing as they have indicated. Furthermore, many cities in the western part of China have indicated that they intend to begin the migration to digital as a way to improve communications between the government and local citizens. In addition, in August, CCTV launched six new digital channels. As CCTV and other content providers launch other channels, DVN expects that demand for digital cable and DVN's services will increase.

While new headend sales have declined, DVN is in negotiation to sell a stake in some of its existing headend systems where it has invested its own funds. The purpose would be to reduce risk, realize profits on its investments, increase return on capital and to also bring in strategic investors who could assist in more rapid rollouts.

FINANCIAL REVIEW

Financial Results

The Company's turnover for the six months period ended 30th June 2004 increased 46% from HK$40.7 million in first half 2003 to HK$59.4 million in the first half of 2004.

Turnover (HK$'mil)	1H 2004	1H 2003	% Change
Set Top Box Revenues	**42.0**	15.4	173%
Headend Revenues	**2.6**	15.5	-83%
Subscriptions	**1.9**	2.2	-14%
Telequote	**8.1**	7.3	9%
Others	**4.8**	0.3	1500%
Total	**59.4**	40.7	46%

The increase in revenue comes primarily from a sharp increase in the sale of set top boxes, with set top box revenues rising 173% from HK$15.4 million in the first half of 2003 to HK$42.0 million for the same period in 2004. During this period, DVN sold over 80,000 set top boxes, a 292% increase in number compared to 2003. Most of these set top boxes were sold in localities such as Qingdao where the cable operator is giving away the set top box. Nationwide, set top box sales are beginning to increase as China begins the implementation of its migration towards digital.

Headend sales revenues declined as fewer headends were sold in the first half of 2004 as DVN transitions from a seller of headends to a seller of set top boxes and eventually to a provider of value added services. Also, DVN had not yet integrated its products with Motorola. This integration is now almost completed, and should lead to higher headend sales in the second half.

Subscription revenue declined by 14% from HK$2.2 million to HK$1.9 million. One reason is that most of the sites where DVN is entitled to a share of the subscription revenues are still depending on sales of STB's directly to customers, as opposed to having the cable operator finance the box, and then give it for free to customers. As a result, sales in these territories where DVN is entitled to share revenues is relatively slow. Also, some cable operators have decided to give old subscribers who had previously purchased their STB a temporary subscription fee holiday given that new subscribers are now given the STB for free.

Despite sharply higher revenues, the decline in higher margin headend sales and the lower than expected subscription revenues caused DVN's net loss to decline only slightly by 11% from HK$17.2 million for the first half of 2003 to a net loss of HK$15.4 million. In addition, average STB gross margins declined as DVN made greater bulk sales. Included in the turnover was STB license fees and sale of smart cards amounting to HK$4.8 million in total. Despite the increase in sales activities, the cost has been kept under control with only a slight increase of 6% in selling and marketing expenses, and reduction of administrative expenses by 2% at HK22.4 million.

Cost of Sales & Gross Profit

Cost of sales for the first six months of 2004 increased from HK$25.7 million in first half 2003 to HK$41.4 million in first half 2004. Gross profit for the first six months of 2004 increased by 20% over that of the same period the year before, from approximately HK$15.0 million to approximately HK$18.0 million. The gross profit margin for the first half of year 2004 was 30% as compared to 37% for the same period of 2003 due to a change in the sales mix as fewer higher margin headends were sold. Looking forward, as full digitalization plans are rolled out in China, DVN will continue to derive more of its revenues from the sales of set top boxes compared to sales of headends.

Other Revenue and Other Operating Income

Other revenue and other operating income consist mainly of interest income, rising slightly from HK$173,000 in the first half of 2003 to HK$194,000 for the comparable period in 2004.

Selling, Marketing and Distribution Expenses

Marketing, selling and distribution costs increased by only 6% from HK$8.0 million in first half 2003 to HK$8.5 million in first half 2004, despite the substantial increase in sales of set top boxes as DVN has remained vigilant on keeping costs under control. Looking forward, DVN expects selling and marketing expenses to increase in the second half of 2004 as sales increase.

Administrative Expenses

Total administrative expenses decreased by 2% from HK$22.9 million in 2003 to HK$22.4 million in 2004. Administrative expenses include research and development expenses, depreciation and general administration expenses. Research and development expenses declined by 17% to HK$10.2 million, while general administrative expenses increased by 15% to HK$12.2 million. The latter is increasing as DVN begins to rollout its services to more areas. Actual expenditures on salary and benefits increased by 7%.

Other Operating Expenses

Other operating expenses increased from approximately HK$1.5 million in first six months of 2003 to HK$2.7 million for the comparable period in 2004. The increase was due to the accelerated amortisation of deferred development cost of set top boxes in this period, as development projects were completed and commercial roll out commenced.

Liquidity and Capital Resources

DVN has financed its growth primarily through the issuance of new shares and internally generated cash and short term bank loans. As of 30th June 2004, its current ratio was 1.35 and its cash and bank balances amounted to HK$36.5 million. This is compared to a current ratio of 1.44 and cash and bank balances amounting to HK$62.0 million as of 31st December 2003. The lower bank balances at 30th June 2004 was due to the repayment of RMB40 million short term bank loan during the period. DVN had no material long term debt liability nor any contingent liabilities outstanding as at 30th June 2004.

Capital Structure of the Company

In the first half of 2004, 5,599,664 share options of the Company were exercised. Apart from that, there was no change in the capital structure of the Company during the period.

Investment

On 19th April 2004, Digital Video Networks (Shanghai) Company Limited ("DVN Shanghai"), a wholly-owned subsidiary with a registered capital of US$5,000,000 was incorporated in the PRC. Apart from that, there was no change in the investment holding of the Company for the first half of 2004.

There were no material acquisitions and disposals of subsidiaries and associated companies for the first half of 2004.

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

Including directors of the Group, as at 30th June 2004, the Group employed a total of 276 full-time employees, including 80 engineering and product development staff. Employees are offered discretionary year-end bonuses based on individual merit.

Share Options

The Company adopted a new share option scheme (the "Scheme") at a Special General Meeting held on 26th June 2002 ("SGM"). The purpose of the Scheme is to recognise and acknowledge the contributions of the Qualified Persons (as defined in the 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 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. 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.

No share options have been granted under the Scheme for the period ended 30th June 2004. The details of movements of the outstanding share options are as follows:

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 2004	**Options exercised during the period**	**Options lapsed during the period**	**Outstanding options as at 30th June 2004**
Held by directors	6,000,000	–	–	6,000,000
Held by qualified persons	8,575,000	(1,324,333)	–	7,250,667
Total	14,575,000	(1,324,333)	–	13,250,667

Date of share options granted	10th December 2003
Exercise price	HK$0.824
Exercise period	1st January 2004 – 31st December 2006

	Outstanding options as at 1st January 2004	**Options exercised during the period**	**Options lapsed during the period**	**Outstanding options as at 30th June 2004**
Held by directors	7,500,000	–	–	7,500,000
Held by qualified persons	29,980,000	(4,275,331)	–	25,704,669
Total	37,480,000	(4,275,331)	–	33,204,669

Charges on Group Assets

The Group did not have any assets pledged or charged as at 30th June 2004.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30th June 2004.

Exposure to Fluctuations in Exchange Rates and Related Hedges

The Group's 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 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

Directors' interests and short positions in shares, underlying shares and debentures

As 30th June 2004, the interest of the directors in the share and underlying shares, all of which are long position, of the Company or its associated corporations, as defined in Part XV of Securities and Futures Ordinance ("SFO") and as recorded in the register required to be kept by the Company under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies ("Model Code"), 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	–	–

Directors' interests and short positions in shares, underlying shares and debentures *(Continued)*

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.

2,822,000 ordinary shares in the Company are held by First Gain International Limited which is 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) 10,001,140 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 26,420,454 ordinary shares in the Company at a conversion price of HK$4.40 per share, subject to adjustment.

Directors' interests and short positions in shares, underlying shares and debentures *(Continued)*

(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 2004	Number of share options exercised during the period	Number of share options cancelled/ lapsed during the period	Number of share options outstanding as at 30th June 2004	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
	10/12/2003	450,000	–	–	450,000	1/1/2004 – 31/12/2006	0.824
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
	10/12/2003	4,500,000	–	–	4,500,000	1/1/2004 – 31/12/2006	0.824
	10/12/2003	4,500,000	–	–	4,500,000*	1/1/2004 – 31/12/2006	0.824

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

Directors' interests and short positions in shares, underlying shares and debentures *(Continued)*

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2004	Number of share options exercised during the period	Number of share options cancelled/ lapsed during the period	Number of share options outstanding as at 30th June 2004	Exercise period	Exercise price per share
Ms. Cheung Sum Yu, Fiona	10/12/2003	550,000	–	–	550,000	1/1/2004 – 31/12/2006	0.824
Mr. Shaw Sun Kan	10/12/2003	550,000	–	–	550,000	1/1/2004 – 31/12/2006	0.824
Mr. Jerry Sze	10/12/2003	550,000	–	–	550,000	1/1/2004 – 31/12/2006	0.824
Mr. Chu Hon Pong	10/12/2003	450,000	–	–	450,000	1/1/2004 – 31/12/2006	0.824
Mr. Liu Tsun Kie	10/12/2003	450,000	–	–	450,000	1/1/2004 – 31/12/2006	0.824

Saved as mentioned above, as at 30th June 2004, none of the directors had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had been recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the SEHK pursuant to the Model Code.

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 2004, save as disclosed below and under the section "Directors' interests and short positions in shares, underlying shares and debentures" above, no other person had registered any other interest under Section 336 of the SFO:

Name	*Note*	Direct interests	Indirect interests
BAPEF Investments XIV Limited		30,110,204	–
Baring Asia Private Equity Fund LP2	*(i)*	–	30,110,204

Note (i) The interests are held by BAPEF Investments XIV Limited.

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") at any time during the six months ended 30th June 2004, save that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

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 2004 with the directors.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

		Unaudited	
		Six months ended 30th June	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**59,366**	40,677
Cost of sales		**(41,363)**	(25,676)
Gross profit		**18,003**	15,001
Other revenues		**194**	173
Marketing, selling and distribution costs		**(8,510)**	(7,951)
Administrative expenses		**(22,401)**	(22,871)
Other operating expenses		**(2,668)**	(1,538)
Operating loss	3	**(15,382)**	(17,186)
Finance costs		**(915)**	(596)
Share of loss of a jointly controlled entity		**(597)**	(661)
Loss before taxation		**(16,894)**	(18,443)
Taxation	5	**–**	–
Loss before minority interests		**(16,894)**	(18,443)
Minority interests		**22**	174
Loss for the period		**(16,872)**	(18,269)
Preference dividends	6	**(2,906)**	(2,906)
Loss attributable to ordinary shareholders		**(19,778)**	(21,175)
Loss per share – basic	7	**(HK$0.04)**	(HK$0.06)

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004

	Notes	Unaudited 30th June 2004 HK$'000	Audited 31st December 2003 HK$'000
Non-current assets			
Fixed assets	8	**56,443**	61,768
Intangible assets	8	**27,667**	27,752
Interest in a jointly controlled entity		**7,120**	7,717
		91,230	97,237
Current assets			
Inventories		**38,231**	24,510
Work in progress		**12,722**	12,722
Trade and other receivables, prepayments and deposits	9	**65,072**	59,036
Bank balances and cash		**36,503**	61,954
		152,528	158,222
Current liabilities			
Trade payables, accruals and other payables	10	**106,902**	65,638
Amount due to related companies		**1,016**	1,364
Current portion of long term liabilities	11	**36**	36
Bank loans, secured		**4,739**	42,654
		112,693	109,692
Net current assets		**39,835**	48,530
Total assets less current liabilities		**131,065**	145,767
Financed by:			
Share capital	12	**45,733**	45,173
Reserves		**(33,007)**	(17,785)
Shareholders' funds		**12,726**	27,388
Minority interests		**118,241**	118,263
Long term liabilities	11	**98**	116
		131,065	145,767

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited	
	Six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Net cash inflow/(outflow) in operating activities	**10,911**	(36,559)
Net cash used in investing activities	**(3,549)**	(5,789)
Net cash (outflow)/inflow from financing	**(32,813)**	43,047
(Decrease)/increase in cash and cash equivalents	**(25,451)**	699
Cash and cash equivalents at 1st January	**61,954**	17,493
Cash and cash equivalents at 30th June	**36,503**	18,192
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**36,503**	18,192

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

	Unaudited					
	Ordinary share capital *HK$'000*	Share premium *HK$'000*	Contributed Surplus *HK$'000*	Accumulated losses *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'000*
At 1st January 2004	**45,173**	**152,097**	**222,122**	**(393,197)**	**1,193**	**27,388**
Exchange differences					**(352)**	**(352)**
Net gains or losses not recognised in the profit and loss account					**(352)**	**(352)**
Exercise of share options	**560**	**4,908**				**5,468**
Loss for the period				**(19,778)**		**(19,778)**
At 30th June 2004	**45,733**	**157,005**	**222,122**	**(412,975)**	**841**	**12,726**

	Unaudited					
	Ordinary share capital *HK$'000*	Share premium *HK$'000*	Contributed Surplus *HK$'000*	Accumulated losses *HK$'000*	Exchange reserve *HK$'000*	Total *HK$'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

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 25, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the 2003 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 2003.

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:

	Six months ended 30th June 2004		
	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	51,251	8,115	59,366
Segment results	(16,434)	1,052	(15,382)
Operating loss			(15,382)
Finance costs			(915)
Share of loss of a jointly controlled entity	(597)		(597)
Loss before taxation			(16,894)
Taxation			–
Loss before minority interests			(16,894)
Minority interests			22
Loss for the period			(16,872)
Preference dividends			(2,906)
Loss attributable to ordinary shareholders			(19,778)

2. Segment information *(Continued)*

	Six months ended 30th June 2003		
	Services and design, integration and installation of digital broadcasting systems and development of related software and products *HK$'000*	Provision of international financial market information and selective consumer data *HK$'000*	Total *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)

There are no sales between the business segments.

2. **Segment information** *(Continued)*

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 Asian countries – Provision of international financial market information and selective consumer data

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

	Turnover Six months ended 30th June		**Operating profit/(loss) Six months ended 30th June**	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China	**50,113**	33,303	**(16,520)**	(17,876)
Hong Kong	**7,089**	5,713	**559**	563
Other Southeast Asian countries	**2,164**	1,661	**579**	127
	59,366	40,677	**(15,382)**	(17,186)

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 charging the following:

	Six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Cost of inventories sold	**39,743**	24,084
Staff costs *(note 4)*	**14,556**	10,881
Depreciation:		
Owned fixed assets	**6,591**	8,387
Leased fixed assets	**22**	–
Amortisation of deferred development costs	**2,346**	622
Amortisation of film rights	**–**	891

4. Staff costs

	Six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Wages and salaries	**18,550**	17,568
Termination benefits	**19**	327
Contributions to the defined contribution schemes	**752**	994
Less: Costs capitalised	**(4,765)**	(8,008)
	14,556	10,881

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 2004 (2003: Nil).

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

6. Preference dividends

	Six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
DVN (Group) Limited, a wholly-owned subsidiary of the Company		
Dividends on 5% exchangeable preference shares	**2,906**	2,906

7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK$19,778,000 (2003: HK$21,175,000) and on the weighted average of 454,452,795 (2003: 376,734,826) ordinary shares in issue during the period.

No diluted loss per share is shown for the two six months ended 30th June 2004 and 2003 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 2004	**Deferred development costs** ***HK$'000***	**Fixed assets** ***HK$'000***	**Total** ***HK$'000***
Opening net book amount	**27,752**	**61,768**	**89,520**
Development costs recognised as assets	**2,261**	**–**	**2,261**
Additions	**–**	**1,288**	**1,288**
Depreciation/amortization charge	**(2,346)**	**(6,613)**	**(8,959)**
Closing net book amount	**27,667**	**56,443**	**84,110**

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 2004 *HK$'000*	31st December 2003 *HK$'000*
0 – 30 days	**20,345**	7,787
31 – 60 days	**–**	59
61 – 90 days	**24**	–
Over 90 days	**17,356**	8,923
	37,725	16,769

Credit period of 30 to 60 days is normally granted to customers.

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 2004 *HK$'000*	31st December 2003 *HK$'000*
0 – 30 days	**19,727**	6,543
31 – 60 days	**3,616**	277
61 – 90 days	**509**	580
Over 90 days	**21,638**	12,783
	45,490	20,183

11. Long term liabilities

	30th June 2004 *HK$'000*	31st December 2003 *HK$'000*
Obligations under a finance lease	**134**	152
Current portion of long term liabilities	**(36)**	(36)
	98	116

12. Share capital

Authorised

	5% redeemable, convertible preference shares of HKD1.50 each		**Ordinary shares of HKD0.10 each**	
	No. of shares	*HKD'000*	*No. of shares*	*HKD'000*
At 1st January 2004 and 30th June 2004	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	*HKD'000*	*No. of shares*	*HKD'000*
At 1st January 2004	–	–	451,734,826	45,173
Exercise of options	–	–	5,599,664	560
At 30th June 2004	–	–	457,334,490	45,733

13. Contingent liabilities

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

14. Commitments

(a) Commitments under operating leases

At 30th June 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
Within one year	**2,917**	3,626
In the second to fifth year inclusive	**3,207**	4,743
	6,124	8,369

(b) Financial commitments

At 30th June 2004, the Group had financial commitments of RMB39,316,000 (HK$37,266,000) (at 31st December 2003: HK$ 37,266,000) and USD4,000,000 (approximately HK$31,200,000) (at 31st December 2003: NIL). Included in the commitments, there were RMB5,316,000 (approximately HK$5,039,000) and HKD375,000 (approximately HK$2,925,000) (as at 31st December 2003: Nil) which had been paid but the capital verification process has not been completed.

(c) Capital commitments

As 30th June 2004 and 31st December 2003, the Group had no significant capital commitments.

15. Related party transactions

	6 months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Sales of digital broadcasting systems to a jointly controlled entity	–	272
Service fee income from a jointly controlled operation	**202**	420
Preference dividend payable to a related company	**2,906**	2,906

16. Post balance sheet events

Pursuant to the Subscription Agreement entered into between the Company and Motorola-Dragon Investment, Inc. ("Motorola") on 18th May 2004 (the "Subscription Agreement"), Motorola has conditionally agreed to subscribe for the Company's new ordinary shares in up to four tranches for a cash consideration up to a maximum of US$33 million (equivalent to approximately HK$257.4 million). Pursuant to the ordinary resolutions passed on 8th July 2004, the Subscription Agreement was approved, confirmed and ratified, and the Whitewash Waiver, the granting of which was a condition of the First Tranche Completion, was approved. Upon the completion of the First Tranche of the Subscription Agreement on 15th July 2004, the Company issued to Motorola 58,500,000 new ordinary shares at a consideration of US$7.5 million. Details of the Subscription Agreement was set out in the Circular dated 23rd June 2004.

Pursuant to the ordinary resolutions passed on 8th July 2004, the authorised preference share capital of HK$124,875,000 divided into 83,250,000 convertible preference shares, none of which are issued, was reclassified into authorised ordinary share capital of HK$124,875,000 divided into 1,248,750,000 ordinary shares such that the authorised ordinary share capital of the Company was HK$204,875,000 divided into 2,048,750,000 ordinary shares. Upon the reclassification, the Company's authorised ordinary share capital was further increased to HK$300,000,000 divided into 3,000,000,000 ordinary shares by creation of an additional 951,250,000 ordinary shares.

By order of the Board
Lui Pan, Terry
President

Hong Kong, 22nd September 2004