

1999 Annual Report

Management Discussion and Analysis

RESULTS FOR THE YEAR

Turnover for the year ended 30 June 1999 was HK\$1.4 billion, representing a 9% increase over the previous year.

Approximately 50% of this turnover was contributed by Kantone. Around 65% of this turnover was derived from sales of equipment and systems, 26% from Microelectronics, Software and Technology, with the balance contributed from Telecommunication Operations. Audited consolidated profit from ordinary activities before exceptional items and taxation was HK \$304 million, a 4% increase compared with last year.

In geographical terms, approximately 69% of this turnover was sales to China including Hong Kong, and 19% of it was sales to Europe, with the remaining sales to other Asian countries and the rest of the world.

As it has throughout its existence, the Group maintained a comfortable level of working capital and cash resources to fund capital projects. The Board has overseen the building of a strong and stable cash flow, consistent with its policy of prudent financial planning, resulting in the Group's strongest balance sheet ever.

OPERATIONS REVIEW:

Exceptional items of HK\$92 million represented provisions against the discontinuation of slow-moving activities, and write-down of value in equipment and application systems that the Group expects to utilise less in the future as it upgrades services to customers centred on Internet-based applications delivered on wireless infrastructure.

In Asia, where the economic volatility lessened during the end of

the period under review, prudence remained the byword, even as opportunities were taken in light of the region's focus on added value and innovation. No significant changes in market share were experienced.

European operations continued to be little affected by the Asian financial situation, while wide-area paging experienced competition from mobile phones. High quality products and services continued to be provided at existing levels, and the Group's excellent customer base provided room for expansion and diversification into Internet-related areas.

Telecommunications System Software remained a keystone of the Group's capacity and source of revenue. However, the rapid development and popularity of Internet applications have driven the growth of the Champion Technology Group's Internet Networks, including its roles as Internet Service Provider and Commerce Service Provider, and its Internet Enabling Technology Systems. Bringing both products and services to this rapidly expanding market is simply a continuation of the Group's decade-long efforts to bring wireless solutions to bear on communications problems. Having incorporated Digital Hong Kong to be a leading Commerce Service Provider, and having formed the Hong Kong IT Alliance to provide integrated systems solutions and develop e-commerce and communications software, the Group also continued to build on its existing messaging network to provide call centre and customer-centric services.

Alliances with international systems and technology providers continued to elevate the standard of technology offered by the Group, and co-operation with both established and up-and-coming names further widened the Group's presence. The partnership to develop high-speed Internet access systems which was entered into with Witcom of Israel; the joint venture with HIL Technologies of the UK to supply Internet access and intelligent transport systems for "Intelligent Vehicles"; and partnerships with Thomson-CSF Communications of France and Coincard International, Inc. of Canada are all the result of world-wide contacts and the search for the right partnerships at the right time. The Group's service quality and software development capability developed over the years remain intact, as evidenced by promotion of e-commerce services solutions via joint ventures

with Aeon Mastercard and the Bank of China Group.

Overseas, Brazil offered an example of the type of growth which can be expected in other South American markets and in all areas where high speed, high quality solutions are required. Customer numbers have grown quickly; and the businesses served are large and well-established, including many multi-national corporations.

Out of the Group's expertise in wireless solutions to meet the requirements of these enterprises and other customers has arisen PC2A™, the anytime, anywhere suite of transmission system, software and interface that permits access to, and retrieval of, specified information in a specified form via a specified mobile device. In PC2A™, the Group has a winning solution for the wireless world, from Brazil across the Atlantic to Europe and on to Asia.