

CHAMPION

Champion Technology Holdings Limited

Interim Report 2001/2002

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 wireless solutions and services. The Group's current operations span over 50 countries, and include 3 Hong Kong listed companies and a former London listed company.

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

Champion Technology Holdings Limited has a primary listing on The Stock Exchange of Hong Kong Limited. Its shares are also traded over-the-counter in the United States by means of American Depositary Receipts.



CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report For the six-month period ended 31 December 2001

HIGHLIGHTS

- Turnover was HK\$782 million
- Net profit for the period was HK\$101 million
- Interim dividend of HK0.0625 cent per share
- Enhanced portfolio of security solutions through continuing technology development and new acquisitions

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 2001 (the “Interim Accounts”) together with comparative figures for the last corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

		Six months ended 31 December	
		2001	2000
	NOTES	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	2	782,299	738,238
Direct operating expenses	3	(420,109)	(355,493)
Gross profit		362,190	382,745
Other revenue		8,773	15,442
Distribution costs		(19,123)	(21,822)
General and administrative expenses		(87,818)	(66,875)
Depreciation and amortisation	4	(129,740)	(103,184)
Research and development		(2,857)	(3,716)
Profit from operations		131,425	202,590
Finance costs		(15,272)	(20,360)
Profit before taxation		116,153	182,230
Taxation	5	(921)	(1,093)
Profit before minority interests		115,232	181,137
Minority interests		(13,747)	(22,599)
Net profit for the period		101,485	158,538
Dividend	6	(8,885)	(7,357)
Earnings per share	7		
– Basic		0.84 cent	1.35 cents
– Diluted		0.84 cent	1.34 cents

**CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2001**

	<i>NOTES</i>	As at 31 December 2001 HK\$'000 (Unaudited)	As at 30 June 2001 HK\$'000 (Audited and restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	193,302	226,185
Systems and networks		795,886	669,186
Interest in e-commerce projects		646,641	707,574
Interest in telecommunications projects		286,336	309,613
Interest in an associate		46,500	46,500
Deposits		634,943	519,972
Investments in securities		130,845	11,560
		<u>2,734,453</u>	<u>2,490,590</u>
Current assets			
Inventories		56,953	56,014
Trade and other receivables	9	376,081	332,352
Taxation recoverable		1,177	252
Investments in securities		2	2
Deposits, bank balances and cash		636,641	565,752
		<u>1,070,854</u>	<u>954,372</u>
Current liabilities			
Trade and other payables	10	125,204	156,480
Customers' deposits		35,898	4,217
Taxation payable		1,081	411
Bank borrowings – amount due within one year		242,062	248,023
Other borrowings – amount due within one year		12,981	6,720
Obligations under finance leases – amount due within one year		619	1,503
		<u>417,845</u>	<u>417,354</u>
Net current assets		<u>653,009</u>	<u>537,018</u>
Total assets less current liabilities		<u>3,387,462</u>	<u>3,027,608</u>

	<i>NOTES</i>	As at 31 December 2001 HK\$'000 (Unaudited)	As at 30 June 2001 HK\$'000 (Audited and restated)
Minority interests		<u>273,281</u>	<u>259,031</u>
Non-current liabilities			
Bank borrowings – amount due after one year		163,148	163,217
Other borrowings – amount due after one year		22,366	19,991
Obligations under finance leases – amount due after one year		119	264
Deferred taxation		<u>37</u>	<u>37</u>
		<u>185,670</u>	<u>183,509</u>
Net assets		<u>2,928,511</u>	<u>2,585,068</u>
CAPITAL AND RESERVES			
Share capital	<i>11</i>	1,421,587	593,347
Reserves	<i>12</i>	<u>1,506,924</u>	<u>1,991,721</u>
Shareholders' funds		<u>2,928,511</u>	<u>2,585,068</u>

**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE SIX MONTHS ENDED 31 DECEMBER 2001**

	Six months ended 31 December 2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
Exchange difference arising on translation of operations outside Hong Kong not recognised in the condensed consolidated income statement	666	20
Net profit for the period	<u>101,485</u>	<u>158,538</u>
Total recognised net gains	<u>102,151</u>	<u>158,558</u>
Prior period adjustment arising as a result a change in accounting policy (<i>Note 1</i>) – increase in dividend reserve at 1 July 2000		<u>8,828</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2001**

	Six months ended 31 December	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	210,621	159,908
Net cash outflow from returns on investments and servicing of finance	(8,602)	(8,543)
Tax paid	(1,187)	(4,448)
Net cash outflow from investing activities	(251,537)	(210,203)
Net cash outflow before financing	(50,705)	(63,286)
Net cash inflow/(outflow) from financing	131,112	(25,549)
Increase/(Decrease) in cash and cash equivalents	80,407	(88,835)
Cash and cash equivalents at beginning of the period	454,426	541,136
Effect on foreign exchange rate changes	(1,820)	966
Cash and cash equivalents at end of the period	<u>533,013</u>	<u>453,267</u>
Analysis of the balance of cash and cash equivalents		
Deposits, bank balances and cash	636,641	563,468
Bank overdrafts	(103,628)	(110,201)
	<u>533,013</u>	<u>453,267</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES

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

In the current period, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after the Balance Sheet Date
SSAP 26	Segment Reporting
SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29	Intangible Assets
SSAP 30	Business Combinations
SSAP 31	Impairment of Assets
SSAP 32	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in prior period adjustment which increases the dividend reserve and decreases the dividend payable as at 1 July 2000 by HK\$8,828,000 and as at 1 July 2001 by HK\$8,900,000 (note 12).

SSAP 26 is concerned with the presentation and disclosure of financial information. The presentation in the current period’s unaudited condensed consolidated financial statements has been modified in order to conform with the requirements of this standard. Comparative amounts have been restated in order to achieve a consistent presentation.

In adopting SSAP No. 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 July 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1 July 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate. Goodwill arising on acquisition after 1 July 2001 is capitalised and amortised over its estimated useful life of a maximum period of 20 years. Negative goodwill arising on acquisition after 1 July 2001 is presented as a deduction from assets and will be released to income and based on an analysis of the circumstances from which the balance resulted.

2. SEGMENT INFORMATION

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

Segment information about these businesses is presented below:

Business Segments

Results

	Segment revenue		Segment result	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
General systems products	437,678	407,325	48,747	77,183
Provision of services and software licensing	236,516	246,173	85,102	92,034
Leasing of systems products	22,470	15,480	(453)	1,518
Distribution from investments				
– telecommunications networks	61,510	69,260	37,760	31,855
– e-commerce projects	24,125	–	(39,731)	–
Consolidated total	<u>782,299</u>	<u>738,238</u>	<u>131,425</u>	<u>202,590</u>

Other information

	Capital additions		Depreciation and amortisation	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
General systems products	133,553	8,614	27,423	49,388
Provision of services and software licensing	1,900	3,767	21,952	28,553
Leasing of systems products	1,849	1,915	3,387	2,072
Distribution from investments				
– telecommunications networks	23	111	14,700	920
– e-commerce projects	8	–	62,278	22,251
Consolidated total	<u>137,333</u>	<u>14,407</u>	<u>129,740</u>	<u>103,184</u>

Balance sheet

	Segments assets		Segment liabilities	
	31 December	30 June	31 December	30 June
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited and restated)	(Unaudited)	(Audited and restated)
General systems products	1,233,893	1,070,039	(268,615)	(259,680)
Provision of services and software licensing	1,143,080	1,112,761	(207,233)	(245,530)
Leasing of systems products	69,682	63,209	(50,102)	(41,421)
Distribution from investments				
– telecommunications networks	339,416	301,830	(63,213)	(48,126)
– e-commerce projects	1,019,236	897,123	(14,352)	(6,106)
Consolidated total	<u>3,805,307</u>	<u>3,444,962</u>	<u>(603,515)</u>	<u>(600,863)</u>

Geographical Segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical segment		Profit from operations	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
People's Republic of China, including Hong Kong and Macau	625,210	552,698	110,303	180,352
Europe	109,527	131,025	1,043	11,903
Others	47,562	54,515	20,079	10,335
Consolidated total	<u>782,299</u>	<u>738,238</u>	<u>131,425</u>	<u>202,590</u>

2. SEGMENT INFORMATION – Continued

Geographical Segments – Continued

The following is an analysis of the carrying amount of segment assets, and capital additions to property, plant and equipment, system and networks, interests in e-commerce projects and telecommunications projects, analysed by the geographical market to which the assets generate revenue:

	Carrying amount of segment assets		Capital additions	
	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited and restated)	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited and restated)
People's Republic of China, including Hong Kong and Macau	3,264,464	2,894,677	105,607	9,386
Europe	348,158	342,439	23,231	16,454
Others	192,685	207,846	8,495	1,214
Consolidated total	<u>3,805,307</u>	<u>3,444,962</u>	<u>137,333</u>	<u>27,054</u>

3. DIRECT OPERATING EXPENSES

	Six months ended 31 December	
	2001 <i>HK\$'000</i> (Unaudited)	2000 <i>HK\$'000</i> (Unaudited)
Cost of inventories recognised in direct operating expenses	<u>400,528</u>	<u>325,646</u>

4. DEPRECIATION AND AMORTISATION

	Six months ended 31 December	
	2001 <i>HK\$'000</i> (Unaudited)	2000 <i>HK\$'000</i> (Unaudited)
Amortisation of investments in e-commerce projects	60,934	–
Amortisation of investments in telecommunications projects	23,440	34,905
Amortisation of systems and networks	2,725	127
Depreciation on:		
Owned assets	41,762	67,697
Assets under finance leases	879	455
	<u>129,740</u>	<u>103,184</u>

5. TAXATION

Six months ended	
31 December	
2001	2000
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

The charge comprises:

Hong Kong Profits Tax	685	430
Taxation in other jurisdictions	236	663
	<u>921</u>	<u>1,093</u>

Hong Kong Profits Tax is calculated at 16% 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 and is not subject to taxation in any other jurisdictions.

6. DIVIDEND

Dividend represents proposed interim dividend in scrip form equivalent to HK0.0625 cent per share (2000: HK0.0625 cent per share after adjustment to take into account of a bonus issue in the proportion of one bonus share for each share on 19 December 2001), with a cash option.

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		
2001	2000	
HK\$'000	HK\$'000	
(Unaudited)	(Unaudited)	
Earnings for the purpose of calculating basic earnings per share	101,485	158,538
Adjustment to the share of result of a subsidiary based on dilution of its earnings per share	–	(813)
Earnings for the purpose of calculating diluted earnings per share	<u>101,485</u>	<u>157,725</u>
	Number of shares	
	As at 31 December	
	2001	2000
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	12,079,427	11,770,807
Potential dilutive shares issuable under the Company's share option scheme and warrants	3,399	20,480
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>12,082,826</u>	<u>11,791,287</u>

8. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value at 1 July 2001	226,185
Currency realignment	2,122
Additions	7,907
Transfer from stock	17
Disposals	(288)
Depreciation	(42,641)
	<hr/>
Net book value at 31 December 2001	<u>193,302</u>

At 31 December 2001, certain land and buildings of the Group with a net book value of HK\$8,070,000 (30 June 2001: HK\$7,932,000) were pledged to a bank as security for banking facilities granted to the Group. Loss on disposal of property, plant and equipment of the Group amounted to HK\$213,000 for the period.

9. TRADE AND OTHER RECEIVABLES

At 31 December 2001, the balance of trade and other receivables included trade receivables of HK\$266,638,000 (30 June 2001: HK\$296,259,000). The aging analysis of trade receivables at the reporting date is as follows:

	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited)
0 – 60 days	241,070	268,997
61 – 90 days	15,471	10,005
91 – 180 days	2,360	14,083
> 180 days	7,737	3,174
	<hr/>	<hr/>
	<u>266,638</u>	<u>296,259</u>

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 2001, the balance of trade and other payables included trade payables of HK\$14,505,000 (30 June 2001: HK\$17,922,000). The aging analysis of trade payables at the reporting date is as follows:

	31 December 2001 HK\$'000 (Unaudited)	30 June 2001 HK\$'000 (Audited)
0 – 60 days	6,191	11,809
61 – 90 days	3,123	2,484
91 – 180 days	5,051	2,564
> 180 days	140	1,065
	<hr/> 14,505 <hr/>	<hr/> 17,922 <hr/>

At 31 December 2001, the balance of trade and other payables included warranty provision of HK\$1,520,000, and is analysed as follows:

	<i>HK\$'000</i>
At 1 July 2001	1,669
Currency realignment	65
Additional provision	906
Utilisation of provision	<hr/> (1,120) <hr/>
At 31 December 2001	<hr/> 1,520 <hr/>

The warranty provision represents management best estimate of the Group's liability under 12 month warranties granted on communication equipment, based on past experience of the Group.

11. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised share capital of HK\$0.10 each:		
At 1 July 2001	12,000,000,000	1,200,000
Increase in share capital	<u>18,000,000,000</u>	<u>1,800,000</u>
At 31 December 2001	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid share capital of HK\$0.10 each:		
At 1 July 2001	5,933,468,857	593,347
Issue of shares upon bonus issue	6,095,846,970	609,585
Issue of shares as consideration to acquire an investment	1,185,600,000	118,560
Issue of shares upon exercise of warrants	<u>1,000,950,749</u>	<u>100,095</u>
At 31 December 2001	<u>14,215,866,576</u>	<u>1,421,587</u>

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

- (a) On 19 December 2001, a total of 6,095,846,970 bonus shares of HK\$0.10 each ("Shares") were issued to shareholders of the Company on the register of members on 5 December 2001;
- (b) On 20 December 2001, the Company issued 1,185,600,000 shares to Pinkerton Development Limited as consideration for the acquisition of 19% interest in Cumbrian Range Limited; and
- (c) 162,378,113 Shares and 838,572,636 Shares were issued at HK\$0.211 per Share and HK\$0.1055 per Share respectively pursuant to the exercise of subscription rights under the warrants of the Company which expired on 22 December 2001.

All shares issued rank pari passu each other in all respects.

Warrants

On 6 December 2001, the Company announced a bonus issue of new warrants to its shareholders on the register of members on 24 December 2001. A total of 2,843,173,315 units of warrants with subscription rights of approximately HK\$335,494,451 were issued on 7 January 2002. Each unit of warrant entitles its holder to subscribe for shares of the Company at an initial subscription price of HK\$0.118 per Share, subject to adjustments, from the date of issue thereof until 6 January 2003.

12. RESERVES

	Share premium HK\$'000	Dividend reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
At 1 July 2000								
– as originally stated	902,693	–	50	–	(387,826)	2,439	1,225,503	1,742,859
– prior period adjustment								
Derecognition of liability for final dividend for 2000	–	8,828	–	–	–	–	–	8,828
– as restated	902,693	8,828	50	–	(387,826)	2,439	1,225,503	1,751,687
Premium arising from issue of shares								
– on exercise of warrants	10	–	–	–	–	–	–	10
– on distribution of scrip dividends	3,800	–	–	–	–	–	–	3,800
Exchange difference arising on translation of operations outside Hong Kong	–	–	–	–	–	(141)	–	(141)
Capitalization for bonus issue of shares of a subsidiary	–	–	–	42,198	–	–	(42,198)	–
Net profit for the year	–	–	–	–	–	–	252,579	252,579
Transfer-dividend for the year								
– Interim	–	7,386	–	–	–	–	(7,386)	–
– Final	–	8,900	–	–	–	–	(8,900)	–
Dividend paid	–	(16,214)	–	–	–	–	–	(16,214)
At 30 June 2001, as restated	906,503	8,900	50	42,198	(387,826)	2,298	1,419,598	1,991,721
Premium arising from issue of shares								
– on exercise of warrants	22,637	–	–	–	–	–	–	22,637
– as consideration to acquire an interest in securities	59,280	–	–	–	–	–	–	59,280
Exchange difference arising on translation of operations outside Hong Kong	–	–	–	–	–	666	–	666
Capitalization for bonus issue of shares	(668,864)	–	–	63,297	–	–	(63,297)	(668,865)
Net profit for the period	–	–	–	–	–	–	101,485	101,485
Transfer - dividend for the period	–	8,885	–	–	–	–	(8,885)	–
At 31 December 2001	<u>319,556</u>	<u>17,785</u>	<u>50</u>	<u>105,495</u>	<u>(387,826)</u>	<u>2,964</u>	<u>1,448,901</u>	<u>1,506,924</u>

13. CAPITAL COMMITMENTS

	31 December 2001 HK\$'000 (Unaudited)	30 June 2001 HK\$'000 (Audited)
Capital expenditure in respect of investments:		
Contracted for but not provided in the financial statements	–	23,250
Authorised but not contracted for	–	–
	<u>–</u>	<u>23,250</u>
Capital expenditure in respect of property, plant and equipment:		
Contracted for but not provided in the financial statements	132,243	816
Authorised but not contracted for	15,762	26,178
	<u>148,005</u>	<u>26,994</u>
	<u>148,005</u>	<u>50,244</u>

14. OPERATING LEASE COMMITMENTS

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 at the reporting date as follows:

	31 December 2001		30 June 2001	
	Land and buildings HK\$'000 (Unaudited)	Machinery and equipment HK\$'000 (Unaudited)	Land and buildings HK\$'000 (Audited)	Machinery and equipment HK\$'000 (Audited)
Operating leases which expire:				
Within one year	2,661	2,853	3,823	3,576
In the second to fifth years inclusive	2,590	5,560	3,462	4,112
	<u>5,251</u>	<u>8,413</u>	<u>7,285</u>	<u>7,688</u>

15. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

The global economic and investment climate was extremely challenging during the period under review. Continuing uncertainties affected customers' budgets for new purchases. Under such circumstances, management stepped up its efforts in keeping stringent cost and credit control, as well as focusing on innovative product development and enhanced services offerings targeted at protecting its margins. Once again, the Group was able to deliver profitable results in tough market conditions.

FINANCIAL RESULTS

The Group's unaudited consolidated turnover for the six months ended 31 December 2001 amounted to HK\$782 million (2000: HK\$738 million). China market continued to sustain growth, contributing HK\$625 million, or 80 per cent of the Group's turnover, compared to HK\$553 million or 75 per cent in the last corresponding period. European sales were affected by the economic recession, and turnover accounted for HK\$110 million, or 14 per cent of total, compared to HK\$131 million or 18 per cent in the previous corresponding period.

Gross profit remained steady at HK\$362 million (2000: HK\$383 million). Net profit for the six months ended 31 December 2001 was HK\$101 million (2000: HK\$159 million), and earnings per share was HK0.84 cent. The lower profitability was in part due to higher operating costs resulting from the deferment of customer orders subsequent to the September incident in the US.

Compared to the prior six-month period, the Group's profitability trend continued with a slight increase of about 8 per cent (Net Profit for the six months ended 30 June 2001: HK\$94 million). The results of both consecutive periods reflected in part an increase of amortisation of the Group's e-commerce capital assets, which was not yet matched by corresponding revenue growth, as is common for new businesses in their initial phase of revenue generation. Yet the quality of the Group's e-commerce investments remained high, and some of these were quick to evolve into revenue-generating clicks-and-mortar businesses that integrate smoothly in synchronization with its core activities.

REVIEW OF OPERATIONS

During the period under review, the Group continued to strengthen its software capabilities. It also made a number of corporate moves targeted at expanding its product offerings and technology base, with a focus on secure communications and high value-added systems. In the wake of the terrorist attacks in New York, there has been a surge in demand for tightened security and defense quality radio systems by the public as well as the private sectors across the board. A summary of the key developments during the period is provided below:

Command and Control Communications

A new unit to pursue Command and Control Communications (CCC) opportunities in China, Hong Kong, and Asia Pacific markets has been set up. CCC is commonly used for dispatch, logistics control and command transmission, and is vital for the effective and efficient operation of organic units in government and private enterprises such as police, fire and emergency services, as well as industrial and commercial enterprises like fleet control and personnel dispatch in transportation, public utilities and service industries. Several projects in the region involving public safety organizations have been identified for active pursuit, and the Hong Kong team worked closely with our communications experts from Multitone Electronics of UK.

MuteTone™ Wireless Solutions

MuteTone™ is a cost-effective solution for unwanted mobile communications, applying proprietary technology that mutes mobile signals from the base station to the phones themselves within a confined and controlled area. The Group is the first to develop and market such products on a global scale. MuteTone™ solution comprises several different signal muting systems catered to the specific regulatory and cultural requirements of the local market, and it has been designed so that it will not interfere with any other communications or electronic equipment inside or outside the affected area, making it safe to use in almost any working environment.

The launch has coincided with increasing global demand for security products and has attracted great interest from many prospective customers both in the public and private sectors. The Group is finalizing distributorship agreements in several major markets.

Alongside the launch of MuteTone™, the Group also acquired an interest in a wireless solutions company which owns significant IP (intellectual property) rights in advanced signal detection and jamming technologies, covering such products and trademarks as SignalJammer™, StopMobile™, and FrequencyBlocker™. This acquisition further enhanced the Group's portfolio of security solutions.

G-SIGMA™ (Global Security Intelligent Generation Monitoring Appliances) – PeepTone™ Monitoring Solutions

PeepTone™ is a rich-featured real-time digital video monitoring and recording solution specially designed for remote management and security applications, seamlessly combining video multiplexing, digital recording, motion detection, and motion tracking. PeepTone™ system compresses and transmits high-resolution video signals through various communications channels, including ISDN (Integrated Services Digital Network), PSTN (Public Switched Telephone Network), Mobile network, LAN (Local Area Network), and the Internet. Each module of PeepTone™ can be integrated with password authentication, smart card, and biometrics technology for multiple users for high degree security, and can be connected up to 16 surveillance cameras, which can be monitored over one or multiple display units. The Group is marketing the product on a global scale.

DIGITALHONGKONG.COM (Digital HK)

Digital HK has adjusted and repositioned itself to expand its revenue base. Its efforts are already paying off, as evidenced by four consecutive profitable quarters since March 2001.

While Digital HK continues to provide online payment solutions and services through its payment platform, and technical consultation on e-commerce integration, management has decided to broaden its business scope to embrace other prospective revenue-generating activities such as systems development in innovative merchandising and advertising kiosks; security and smart card related opportunities; as well as IT consulting services.

Kantone Holdings Limited (Kantone)

Kantone continued to realign its product and service mix to target at higher margin business. China business remained on target, and the Group has achieved outstanding results in providing mission critical communications services for the emergency and rescue services sectors in the UK. In addition to an ongoing engagement to test and audit TETRA (Terrestrial Trunk Radio Access) wireless communications systems used by the Police Forces in the UK, Kantone also won several new contracts in the public sector, including a contract to supply emergency communications system for London Fire and Emergency Planning Authority.

With a renewed focus on high-margin communications software customization business, Kantone is developing a suite of mobile data systems that provides vehicle location and Geographical Information System (GIS) technology.

The Group, through its UK subsidiary, Multitone, has commenced negotiation with a leading telecommunications equipment supplier for the transition of nationwide wireless messaging business in the US to the Group. Upon such transition, the Group will assume such supplier's role in the messaging industry as a provider of certain protocol-based devices. The new product lines and expanded customer base will complement Kantone's current distribution of Wireless Integrated Networking (WIN) products in the US, where advanced messaging for enterprise applications is in strong demand and has good growth potential. Management believes that two-way messaging applications using cost-effective bandwidth solutions will open up new opportunities, further reinforcing the Group's leadership position in integrated wireless messaging. Detailed arrangements are being finalised.

PROSPECTS

Recent published data showed that the US economy is picking up. This is expected to spread to other global markets, reviving the growth trend in the longer run. The directors are cautiously optimistic of the Group's future, and that the Group's investment and expansion plans will provide future growth and value to its shareholders. In particular, the increasing concern about public safety and personal privacy post 911 incident has resulted in a surge in demand for secure communications and defense quality radio systems by the public as well as the private sectors across the board, giving promise to higher margin business and new opportunities for the Group's comprehensive security solutions.

Looking ahead, China remains the Group's largest market. With closer links between Hong Kong and the Mainland through the proposed CEPA (Closer Economic Partnership Arrangement); China's recent accession to the WTO; and further beyond, Beijing's hosting of the Olympic Games in 2008, the Group is well positioned to seize the exciting and enormous opportunities ahead. The focus will be on Information Technology for the Public (ITTP), which includes the sectors of public safety, public transportation, public utility, and public convenience, the last of which through the applications of smart cards. To this end, co-operation and strategic alliances with industry leaders and international technology partners will continue to be forged.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a net cash position. As at 31 December 2001, the Group had HK\$637 million made up of deposits, bank balances and cash. It finances its business activities primarily through cash generated by operations.

The gearing ratio at the period end was 0.15 (30 June 2001: 0.17) which is calculated based on the Group's total borrowings of HK\$441 million (30 June 2001: HK\$440 million) and shareholders' funds of HK\$2,929 million (30 June 2001: HK\$2,585 million).

The total borrowings comprise bank borrowings of HK\$405 million (30 June 2001: HK\$411 million), other borrowings, which represent block discounting loans, of HK\$35 million (30 June 2001: HK\$27 million) and obligations under finance leases of HK\$1 million (30 June 2001: HK\$2 million). The bank borrowings are mainly borrowed as the working capital for the Group. The finance costs for the six months ended 31 December 2001 amounted to HK\$15 million (2000: HK\$20 million).

The Group has a strong liquidity position. Taking into account its internal resources and available banking facilities, the Group has sufficient financial resources for its working capital requirement. Where market conditions permit, the Group may also consider the use of financial instruments composed of equity and/or debt.

It is the Group's policy to manage the foreign exchange risk directly and not to undertake any speculative derivative trading activities. To mitigate the foreign exchange risk of the Group arising from transactions in the normal course of business, the management endeavours to match foreign currency income with expense. The management also uses appropriate hedging instrument for transactions with high exchange rate risk.

At 31 December 2001, certain land and buildings of the Group with a net book value of approximately HK\$8 million (30 June 2001: HK\$8 million) were pledged to a bank as security for banking facilities granted to the Group.

Save as disclosed above, the information relating to matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") has not been changed materially from that disclosed in the annual report of the Company for the year ended 30 June 2001.

INTERIM DIVIDEND

The directors of the Company have declared an interim dividend of HK0.0625 cent per share (2000: HK0.0625 cent per share, after adjustment to take into account of a bonus issue in the proportion of one bonus share for each share on 19 December 2001) to shareholders whose names appear on the register of members of the Company on 23 April 2002 to be satisfied by allotment of new shares, credited as fully paid, by way of scrip dividend, with an alternative to the shareholders to elect to receive such dividend (or part thereof) in cash in lieu of such allotment (the “scrip dividend scheme”).

The scrip dividend scheme will be subject to the Listing Committee of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the scrip dividend scheme and the basis of allotment together with a form of election will be sent to the shareholders of the Company as soon as practicable.

It is expected the certificates for the new shares and dividend warrants will be despatched to those entitled thereto on or before 14 June 2002.

CLOSURE OF REGISTER OF MEMBERS

In order to determine entitlement to the interim dividend and the scrip dividend scheme, the register of members of the Company will be closed from 17 April 2002 to 23 April 2002, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfers, accompanied by the relevant share certificates, and in the case of warrantholders, 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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by no later than 4:00p.m. on 16 April 2002.

HUMAN RESOURCES

As at 31 December 2001, the Group directly employed approximately 490 full time employees. The Group remunerates its employees based on their performance, experience and prevailing industry practices. The Group has also established a share option scheme for its staff.

DIRECTORS’ INTERESTS IN SECURITIES

As at 31 December 2001, the interests of the directors and their associates in the securities of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) were as follows:

Name	Number of securities
<i>Securities of the Company</i>	
Paul KAN Man Lok (<i>Note 1</i>)	5,218,064,060 shares
<i>Securities of Kantone</i>	
Paul KAN Man Lok (<i>Note 2</i>)	1,665,025,122 shares
<i>Securities of Digital HK</i>	
Paul KAN Man Lok (<i>Note 3</i>)	119,969,171 shares

Notes:

1. These shares of the Company were owned by Lawnside International Limited (“Lawnside”), which is wholly owned by Lanchester Limited. Lanchester Limited is a company beneficially owned by a discretionary trust, the eligible discretionary objects of which include Paul Kan Man Lok and his family members and staff of the Group. Currently only Paul Kan Man Lok and his family members are discretionary objects of the trust. These are classified as other interests under the Listing Rules.
2. 1,265,940,702 shares of these shares in Kantone were held by the Company and 399,084,420 shares are held by Lawnside. These are classified as other interests under the Listing Rules.
3. 117,300,000 shares of these shares in Digital HK were held by the Company and 2,669,171 shares were held by Lawnside. These are classified as other interests under the Listing Rules.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 31 December 2001.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Each of Company, Kantone and Digital HK, has a share option scheme under which options may be granted to the employees, including directors, of such company or any of its subsidiaries to subscribe for shares in Champion, Kantone and Digital HK respectively.

(i) The Company

Details of the share option scheme of the Company are set out in note 29 to the financial statements as referred to in the Company’s Annual Report 2001.

As at 31 December 2001, the following Directors held share options granted by the Company which are exercisable on the following terms:

Name	Exercise period	Exercise price per share HK\$	Number of shares under outstanding options at 30 June 2001 and 31 December 2001
Leo Kan Kin Leung	30 April 1999 to 29 April 2002	0.17328	15,000,000
	8 February 2000 to 7 February 2003	0.4656	1,000,000
Sunny Lai Yat Kwong	30 April 1999 to 29 April 2002	0.17328	15,000,000
	8 February 2000 to 7 February 2003	0.4656	1,000,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES – Continued

(ii) Kantone

No option was outstanding as at 31 December 2001.

(iii) Digital HK

No option has been granted by Digital HK to any directors of the Company since its adoption.

Other than the share option schemes described above, at no time during the period 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 acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests of the directors disclosed above under directors' interests in securities, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed internal controls and financial matters including the review of the unaudited interim accounts for the six months ended 31 December 2001.

CORPORATE GOVERNANCE

The Company has complied throughout the period with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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

During the six-month period ended 31 December 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 25 March 2002