

Chairman's Statement

DEAR SHAREHOLDERS,

I AM PLEASED TO PRESENT THE ANNUAL REPORT OF CHAMPION TECHNOLOGY HOLDINGS LIMITED ("CHAMPION TECHNOLOGY", OR THE "COMPANY") FOR THE YEAR ENDED 30 JUNE 2005. FISCAL 2005 WAS MARKED BY A STEADY GROWTH OF THE GLOBAL ECONOMY AND IMPROVED CAPITAL SPENDING. TO THE COMPANY, IT REPRESENTED A YEAR OF SOLID EXECUTION AND HEALTHY GROWTH IN ALMOST ALL ASPECTS OF THE COMPANY'S BUSINESSES.

GIVEN OUR FINANCIAL PERFORMANCE, PRODUCT AND MARKET LEADERSHIP, GEOGRAPHICAL BALANCE, AND ACTIVE PARTICIPATION IN KEY GROWTH OPPORTUNITIES – INCLUDING OUR CORE BUSINESSES OF WIRELESS TECHNOLOGIES, COMMUNICATIONS SOFTWARE, AND INTERNET-RELATED SERVICES AND PRODUCTS – WE BELIEVE WE HAVE UNIQUELY POSITIONED THE GROUP AS THE GLOBAL ECONOMY CONTINUES TO GAIN MOMENTUM.

OUR RESULTS

We have achieved satisfactory growth across all fronts. For the year ended 30 June 2005, the Group's financial performance is summarised as below:

- Turnover increased by 9.4 percent to HK\$2,462 million
- EBITDA was HK\$785 million, a rise of 13 percent
- Profit attributable to shareholders went up 55 percent to HK\$459 million
- Shareholders' funds grew 11 percent to HK\$4,705 million
- Earnings per share rose 18 percent to HK37.94 cents

Our revenue growth is a result of gradual economic recovery on a worldwide basis, with specially robust growth in China, which has enjoyed nine straight quarters of annual growth of 9 percent or more, making it the world's seventh largest economy. This was coupled with increased information technology-related capital spending. The Group's investment activities have also achieved steady return. Meanwhile, we continued to benefit from increased contribution from our subsidiaries. Kantone in particular contributed HK\$268 million to our profit before minority interests, a rise of 73 percent from last year. Digital Hong Kong, another subsidiary listed on the GEM board, also produced improved results with net profit of HK\$1.24 million.

Across the board, we continued to improve our productivity. As a result, our profitability growth rate exceeded our revenue growth rate, reflecting our successful execution in driving productivity and operational effectiveness throughout the organisation. Meanwhile, we continue to be prudent in our financial management and maintain a healthy balance sheet with low gearing ratio.

DIVIDENDS AND BONUS ISSUE OF WARRANTS

The Board has recommended a final dividend of HK3.1 cents per share for approval by the shareholders at the forthcoming Annual General Meeting. At the proposed level of HK3.1 cents per share, together with the interim dividend of HK1.7 cents per share, total dividend payment for the year would amount to HK\$59.9 million, an increase of 8.3 percent over last year.

I'm proud of our record of uninterrupted dividend payment which has been sustained since the Company was listed in 1992. I am also pleased to note that we have been able to maintain a dividend yield competitive with the market.

The Board has also proposed a bonus issue of warrants to subscribe for shares of the Company. The New Warrants will be issued upon the expiry of the Existing Warrants in February 2006.

INNOVATION AND STRATEGIC INVESTMENTS

Innovation has been a major component of Champion Technology's growth strategy from day one. Our ability to innovate internally and, at the same time, form strategic alliances, invest in new business opportunities, and successfully integrate acquisitions has helped to accelerate our growth in new and existing markets. Two of such investments have reported steady progress:

Telematics Solutions

Champion's In-Car Telematics division is involved in the distribution and promotion of innovative safe-driving solutions. It has invested in a number of in-car telematics projects including alcohol control systems, vision enhancement systems, pedestrian monitoring systems, and route information systems.

The strategic investment in i-KEY, an in-car safety project, was making steady progress, with sales commencing in the second quarter of 2005 in Japan, following its soft launch end of last year with trucks and vans. Champion was engaged in the brand building, marketing, promotion, and product development of i-KEY, a technological breakthrough solution for drink driving prevention that integrates a breath analyser to test the driver's alcohol level. Drink driving is a serious problem worldwide, accounting for about 40% of all fatal car crashes in some places.

As the global partner for i-KEY, the Group has embarked on a global marketing programme targeted at building a network of partners and licensees for the product launch. Within China, i-KEY was exhibited at several major hi-tech and automotive shows which drew a large audience and high profile publicity. In Europe, i-KEY was a Platinum Sponsor of the Annual Ignition Interlock Symposium recently held in France, which was attended by the major car manufacturers.

Anti-radiation Products to Counteract Radio Emission from Mobile Phones

In March 2005, Champion Technology made the entry into the anti-radiation product market by announcing its initiative to test market and distribute in China anti-radiation products that counter electromagnetic pollution caused by mobile handsets. Various professional studies have indicated that radio frequency emissions may cause harm to the human body, with cancer, brain tumours, headaches and damage to DNA being named as the most common health risks.

Companies in the Group have more than 50 years of radio technology experience, and as part of the testing process, Group members have in the normal course of business taken steps to gauge the effect on health as a result of exposure to electromagnetic emissions. The Group has carried out very extensive evaluation through its development team, and by the beginning of this year, we were ready to introduce anti-radiation products that have been proved effective by studies and repeated testings in counteracting electromagnetic waves generated by mobile phones.

China offers good potential as it is presently the world's largest mobile market with total subscribers in excess of 370 million, and its fast-growing middle class are increasingly health-conscious. Initial response to the product was encouraging when it was introduced and sold on the Internet. The anti-radiation initiative signifies the Group's continuing strategy to invest in products that place safety and health high on the agenda.

A PROMISING YEAR AHEAD

The global economy is expected to maintain its momentum in the coming year. I'm particularly positive about China, the Group's main market, where the economy is forecast to continue booming at 9 percent plus growth rate for the rest of the year. Despite the forging ahead of its economy on all cylinders, China's inflation has been tame and remains under control, therefore laying the foundation for continued strong growth. A combination of factors such as natural economic growth, improved standards of living, the success of China's aerospace projects, notably the recent launch of Shenzhou 6, China's second manned spaceship, and upcoming international events to be held in China such as the 2008 Olympics, the 2010 World Expo, and the 2010 Asian Games are expected to sustain spending on telecommunications and IT solutions.

As common knowledge dictates, revenue growth can only come from new investments. This is especially true when technology development continues at an unprecedented pace, the demands on investment and resources are getting enormous, and time-to-market has presented a major challenge. Naturally we cannot expect to deliver such technology advances all by internal development. Neither would it be prudent for us to engage singlehandedly in our research for technological excellence. We therefore will continue to build relationships and strategic alliances, pursue co-operation with industry leaders and international technology partners who share our vision, and seek new investments that will maximise value within our risk/return framework.

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POST BALANCE SHEET EVENTS

Kantone Acquires e-Lottery Business in China: A Unique Opportunity

In August 2005, Kantone announced the acquisition of 60 percent interest in an investor (the "Investor") of a paperless betting systems developer and service provider in China, Shenzhen Helper Science Development Co. Ltd. ("Shenzhen Helper"), for a consideration of HK\$52 million. Kantone also committed to subscribe for new shares of the Investor in proportion to the shareholding at HK\$18 million for contribution to the Investor's working capital. Shenzhen Helper will be accounted for as a subsidiary of Kantone. Through this acquisition, Kantone now holds a leading position in the e-lottery market in China, with existing paperless betting platforms in Shenzhen and Shanghai, where long-term agreements have been signed with the regional Welfare Lottery Issue Centres to develop telephone betting operating systems in return for recurring revenue sharing of betting turnover. Kantone now owns the IP (intellectual property) rights of a comprehensive e-lottery platform with secure micropayment systems linked to banks which facilitated one-stop automatic betting transactions for multiple gaming plays.

e-Lottery is a new distribution channel for China lottery, and ties in well with the ongoing reforms promulgated by the Chinese Ministry of Finance, which is responsible for the administration of the lottery market and supervision of the issue and sales activities of lotteries. Bettors can access the paperless betting systems through electronic platforms, currently comprising fixed telephones, mobile phones, WAP phones and selected websites. At the moment, Shenzhen Helper has co-operation agreements with eight banks, three telecom companies, and three web portals in China, which act as its sub-agents.

The market of e-lottery is still at its developing stage, but turnover has almost doubled in the last year with the introduction of micropayment through banks, while the overall welfare lottery market is growing at 40 percent CAGR (compound annual growth rate), with forecast turnover for 2005 to reach RMB40 billion. If it were to follow the trend of the high adoption rate of other technologies such as mobile phones, SMS, and Internet usage, e-lottery will have a significant impact on China's overall lottery market. The acquisition presents a timely opportunity for Kantone, and the Group as a whole, to gain entry to the rapidly evolving e-lottery market in China, and e-lottery business has the potential to contribute to Kantone's as well as the Group's results positively in the future.

Professional e-Gaming Management

To capture the exciting e-gaming opportunities on a global basis, and in order to build widespread awareness and trust in the e-gaming arena, the Group is committed to meeting the highest standards in terms of risk management and compliance. To this end, we will continue to seek experienced professionals to join our management team.

I would like to extend a warm welcome to the new members of the Group's e-Gaming management team, who will have responsibilities for the Group's global e-gaming business, overall strategy, legal framework, licensing arrangements, business planning and development, as well as integration activities of global operations.

- *Wang Yu Peng*, who was appointed as Kantone's Chief Operating Officer, e-Lottery Business in September 2005. Wang is the founder of Shenzhen Helper, and a graduate of Tsing Hua University in Computer Science. He owns two invention patents in telephone betting systems.
- *John Schreck*, who joined as Kantone's Director of e-Lottery in September 2005. John has served as Chief Stipendiary Steward of the Hong Kong Jockey Club, Director of Racing in Macau, and Chief Stipendiary Steward of the Australian Jockey Club.

The following senior members will join the Group in November 2005:

- *Michael Thornhill*, as Group Director, e-Gaming Division. Michael has served as a steward of the Hong Kong Jockey Club and Senior Partner of Johnson Stokes and Master.
- *David Gairns*, as Group Director, e-Gaming Division. David has served as a steward of the Hong Kong Jockey Club, Chairman of Hong Kong Lotteries Board, and Senior Partner of KPMG (Hong Kong).
- *Timothy McNally*, as Kantone's Security Adviser for e-Lottery. Tim has served as Director of Security and Corporate Legal Services of the Hong Kong Jockey Club, and Assistant Director-In-Charge of the Federal Bureau of Investigation (FBI), Los Angeles, California.

A NOTE OF CAUTION

While the Group is reinforcing its core wireless business and striving for other growth drivers such as e-gaming and online entertainment to pave way for top-line growth and bottom-line improvement in the years ahead, there emerges increasingly different macro-economic dynamics that may affect the performance of global corporations and therefore their results, ourselves included. Such concerns range from the increase and volatility in energy costs, utility shortage in China, higher interest rates, continuing terrorist attacks, threats of natural catastrophes and outbreaks of contagious diseases. Above all, the combination of new accounting standards and more stringent compliance requirements may lead to greater volatility in earnings and higher demands on management time and resources, thereby raising the cost of doing business.

Against this environment, we'll continue to be prudent in our financial management and deliberate in new business development.

APPRECIATION

I am confident that the Champion Technology Group is built to last. On behalf of our Board of Directors, I would like to thank our customers, partners, employees, and shareholders for your continuing support and confidence, albeit in these very volatile times when events may affect our performance in the years ahead.

Paul KAN Man Lok

Chairman

27 October 2005