



2006/2007

Champion Technology Holdings Limited (Stock Code: 0092)

www.championtechnology.com

INTERIM REPORT

Champion Technology Holdings Limited

(www.championtechnology.com) (stock code 0092) is a global technology group offering innovative solutions in the areas of communications software, wireless, telematics, e-commerce, security, online entertainment and e-gaming. The Group's solutions are dedicated to bettering the lives of people, enriching lifestyles, promoting health consciousness, preventing accidents, saving lives, as well as promoting probity and responsibility in the conduct of the online industry. Such solutions include software-enhanced wireless messaging, radio products and systems, spark proof intrinsically safe communications systems, responsible gaming solutions, as well as networking and Internet access products for customers, network operators, and commercial, government and industrial clients.

With total assets of about \$7 billion, the Group has a global presence in more than 50 markets through a network of regional offices and distributors. It includes 3 Hong Kong listed companies, namely Champion Technology Holdings Limited and Kantone Holdings Limited, whose shares are traded on the main board of The Stock Exchange of Hong Kong Limited (the "Exchange"), and DIGITALHONGKONG.COM, whose shares are traded on the Growth Enterprise Market ("GEM") of the Exchange. The Group also includes a UK subsidiary, which was previously listed on the London Stock Exchange.



CHAMPION TECHNOLOGY HOLDINGS LIMITED

(Continued in Bermuda with limited liability)

INTERIM REPORT

For the six months ended 31 December 2006

FINANCIAL HIGHLIGHTS

- Group turnover was HK\$1,567 million, up 7.4%
- Profit attributable to equity holders was HK\$303 million, up 9.6%
- EBITDA was HK\$630 million, up 17.9%
- Earnings per share was HK22.7 cents, up 3.2%
(Excluding impairment losses of HK\$61.3 million, earnings per share increased to HK26.4 cents.)
- Increased interim dividend of HK2.4 cents per share

The directors of Champion Technology Holdings Limited (the "Company") are pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (together the "Group") for the six months ended 31 December 2006 together with the comparative unaudited figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006

	Notes	Six months ended 31 December	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	2	1,567,004	1,458,821
Direct operating expenses		(1,033,909)	(984,893)
Gross profit		533,095	473,928
Other income		36,925	13,127
Distribution costs		(24,281)	(42,601)
General and administrative expenses		(111,944)	(95,158)
Impairment losses recognised for available-for-sale investments/investments		(61,308)	–
Gain on disposal of development costs for systems and networks		23,140	–
Discount on acquisition of subsidiaries		4,402	–
Gain on deemed disposal of subsidiaries		–	26,528
Loss on fair value change of convertible bonds		–	(25,116)
Finance costs		(7,002)	(4,384)
Profit before taxation		393,027	346,324
Taxation	4	(41)	(268)
Profit for the period		392,986	346,056
Attributable to:			
Equity holders of the Company		303,012	276,550
Minority interests		89,974	69,506
		392,986	346,056
Dividends	5	33,401	28,119
Earnings per share	6		
– Basic		HK22.7 cents	HK22.0 cents
– Diluted		HK21.9 cents	HK21.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2006

		As at 31 December 2006 HK\$'000 (Unaudited)	As at 30 June 2006 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	67,576	67,397
Development costs for systems and networks		1,889,878	1,694,548
Goodwill		36,795	36,795
Intangible assets		8,850	10,030
Available-for-sale investments		1,673,171	1,468,582
Interest in an associate		312	312
Deposits		1,621,811	1,330,871
		<hr/> 5,298,393	<hr/> 4,608,535
Current assets			
Inventories		30,301	28,056
Trade and other receivables	8	948,305	895,044
Taxation recoverable		9,472	301
Deposits, bank balances and cash		666,511	921,264
		<hr/> 1,654,589	<hr/> 1,844,665
Current liabilities			
Trade and other payables	9	65,550	77,404
Warranty provision		1,871	1,683
Customers' deposits		11,678	13,940
Taxation payable		140	13
Bank borrowings – amount due within one year		143,652	154,019
Other borrowings – amount due within one year		2,360	2,650
Convertible bonds	10	77,830	18,219
		<hr/> 303,081	<hr/> 267,928
Net current assets		<hr/> 1,351,508	<hr/> 1,576,737
Total assets less current liabilities		<hr/> 6,649,901	<hr/> 6,185,272

	As at 31 December 2006 HK\$'000 (Unaudited)	As at 30 June 2006 HK\$'000 (Audited)
Non-current liabilities		
Bank borrowings – amount due after one year	765	1,061
Other borrowings – amount due after one year	700	2,349
Retirement benefits obligations	94,479	88,014
Deferred taxation	214	206
	<u>96,158</u>	<u>91,630</u>
Net assets	<u>6,553,743</u>	<u>6,093,642</u>
Capital and reserves		
Share capital	139,172	131,420
Reserves	5,507,969	5,127,340
	<u>5,647,141</u>	<u>5,258,760</u>
Equity attributable to equity holders of the Company	5,647,141	5,258,760
Subscription right reserve of a listed subsidiary	4,639	1,850
Minority interests	901,963	833,032
	<u>6,553,743</u>	<u>6,093,642</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 December 2006

	Attributable to equity holders of the Company											Minority interests	Total equity
	Share capital	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Total	Subscription right reserve		
	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000
At 1 July 2005	124,239	1,196,789	38,514	50	1,366,003	105,495	8,358	(4,931)	1,861,110	4,695,627	1,850	454,724	5,152,201
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	2,538	-	2,538	-	2,041	4,579
Profit for the period	-	-	-	-	-	-	-	-	276,550	276,550	-	69,506	346,056
Total income and expense recognised for the period	-	-	-	-	-	-	-	2,538	276,550	279,088	-	71,547	350,635
Issue of shares upon – conversion of convertible bonds	3,572	35,924	-	-	-	-	-	-	-	39,496	-	-	39,496
– exercise of warrants	1	8	-	-	-	-	-	-	-	9	-	-	9
Contributions from minority interests	-	-	-	-	-	-	-	-	-	-	-	141,768	141,768
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	16,545	16,545
Acquisition of non-wholly owned subsidiaries	-	-	-	-	-	-	-	-	-	-	-	18,426	18,426
Dividends for the period	-	-	28,119	-	-	-	-	-	(28,119)	-	-	-	-
	3,573	35,932	28,119	-	-	-	-	-	(28,119)	39,505	-	176,739	216,244
At 31 December 2005 and 1 January 2006	127,812	1,232,721	66,633	50	1,366,003	105,495	8,358	(2,393)	2,109,541	5,014,220	1,850	703,010	5,719,080
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	(2,127)	-	(2,127)	-	(1,921)	(4,048)
Profit for the period	-	-	-	-	-	-	-	-	273,444	273,444	-	84,761	358,205
Total income and expense recognised for the period	-	-	-	-	-	-	-	(2,127)	273,444	271,317	-	82,840	354,157

	Attributable to equity holders of the Company										Minority interests	Total equity	
	Share capital	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Subscription Total			right reserve
	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000	HKS '000
Issue of shares upon exercise of warrants	344	3,617	-	-	-	-	-	-	-	3,961	-	-	3,961
Acquisition of non-wholly owned subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(1,161)	(1,161)
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	78,113	78,113
Dividends for the period	-	-	44,977	-	-	-	-	-	(44,977)	-	-	-	-
Dividends paid	-	-	(30,738)	-	-	-	-	-	-	(30,738)	-	-	(30,738)
Issue of shares as scrip dividend	3,264	34,239	(37,503)	-	-	-	-	-	-	-	-	-	-
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(10,404)	(10,404)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(19,366)	(19,366)
	<u>3,608</u>	<u>37,856</u>	<u>(23,264)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(44,977)</u>	<u>(26,777)</u>	<u>-</u>	<u>47,182</u>	<u>20,405</u>
At 30 June 2006 and 1 July 2006	<u>131,420</u>	<u>1,270,577</u>	<u>43,369</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>(4,520)</u>	<u>2,338,008</u>	<u>5,258,760</u>	<u>1,850</u>	<u>833,032</u>	<u>6,093,642</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	(3,780)	-	(3,780)	-	(3,519)	(7,299)
Profit for the period	-	-	-	-	-	-	-	-	303,012	303,012	-	89,974	392,986
Total income and expense recognised for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,780)</u>	<u>303,012</u>	<u>299,232</u>	<u>-</u>	<u>86,455</u>	<u>385,687</u>
Issue of shares upon exercise of warrants	7,752	81,397	-	-	-	-	-	-	-	89,149	-	-	89,149
Issue of convertible bonds	-	-	-	-	-	-	-	-	-	-	2,789	-	2,789
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(17,524)	(17,524)
Proposed interim dividend	-	-	33,401	-	-	-	-	-	(33,401)	-	-	-	-
	<u>7,752</u>	<u>81,397</u>	<u>33,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,401)</u>	<u>89,149</u>	<u>2,789</u>	<u>(17,524)</u>	<u>74,414</u>
At 31 December 2006	<u>139,172</u>	<u>1,351,974</u>	<u>76,770</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>(8,300)</u>	<u>2,607,619</u>	<u>5,647,141</u>	<u>4,639</u>	<u>901,963</u>	<u>6,553,743</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006

	Six months ended	
	31 December	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	777,256	541,091
Net cash used in investing activities	(1,160,243)	(461,275)
Net cash from financing activities	86,037	172,241
Net (decrease) increase in cash and cash equivalents	(296,950)	252,057
Cash and cash equivalents at the beginning of the period	921,264	737,795
Effect of foreign exchange rate changes	473	(450)
Cash and cash equivalents at the end of the period	<u>624,787</u>	<u>989,402</u>
Represented by:		
Deposits, bank balances and cash	666,511	998,516
Bank overdrafts	(41,724)	(9,114)
	<u>624,787</u>	<u>989,402</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2006

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments, which are measured at fair values on initial recognition. The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2006.

The HKICPA has issued a number of new/revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted new/revised HKFRSs that are mandatory for the financial year ending 30 June 2007. The adoption of these new/revised HKFRSs has no significant impact on the Group’s results and financial position.

CHAMPION TECHNOLOGY HOLDINGS LIMITED

2. TURNOVER AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into six main operating businesses – sales of general systems products, provision of services and software licensing, leasing of systems products, investments in telecommunications and networks projects, investments in e-commerce projects and holding strategic investments in advanced technology product development companies. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products HK\$ '000	Provision of services and software licensing HK\$ '000	Leasing of systems products HK\$ '000	Investments in telecom- munications and networks projects HK\$ '000	Investments in e-commerce projects HK\$ '000	Strategic investments HK\$ '000	Consolidated HK\$ '000
Six months ended 31 December 2006							
TURNOVER							
External and total revenue	<u>950,810</u>	<u>556,217</u>	<u>5,384</u>	<u>7,992</u>	<u>9,102</u>	<u>37,499</u>	<u>1,567,004</u>
RESULTS							
Segment result	<u>168,486</u>	<u>223,548</u>	<u>714</u>	<u>7,666</u>	<u>8,854</u>	<u>(16,396)</u>	<u>392,872</u>
Interest income							10,757
Discount on acquisition of subsidiaries							4,402
Unallocated corporate expenses, net							(8,002)
Finance costs							(7,002)
Profit before taxation							<u>393,027</u>
Taxation							(41)
Profit for the period							<u><u>392,986</u></u>
Six months ended 31 December 2005							
TURNOVER							
External and total revenue	<u>917,895</u>	<u>477,849</u>	<u>8,294</u>	<u>11,662</u>	<u>12,804</u>	<u>30,317</u>	<u>1,458,821</u>
RESULTS							
Segment result	<u>135,943</u>	<u>156,062</u>	<u>5,641</u>	<u>11,039</u>	<u>11,970</u>	<u>23,125</u>	<u>343,780</u>
Gain on deemed disposal of subsidiaries							26,528
Interest income							10,561
Loss on fair value change of convertible bonds							(25,116)
Unallocated corporate expenses, net							(5,045)
Finance costs							(4,384)
Profit before taxation							<u>346,324</u>
Taxation							(268)
Profit for the period							<u><u>346,056</u></u>

3. DEPRECIATION AND AMORTISATION

	Six months ended	
	31 December	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	222,539	176,298
Intangible assets, included in general and administrative expenses	1,180	–
Depreciation of property, plant and equipment, included in general and administrative expenses	6,287	7,280
Total depreciation and amortisation	<u>230,006</u>	<u>183,578</u>

4. TAXATION

	Six months ended	
	31 December	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
– underprovision in prior years	–	12
Taxation in other jurisdictions	41	256
	<u>41</u>	<u>268</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

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5. DIVIDENDS

Dividends represents interim dividend of HK2.4 cents (2005: HK2.2 cents) per share, in scrip form with a cash option.

The interim dividend is calculated based on 1,391,722,165 shares in issue at 31 December 2006.

6. EARNINGS PER SHARE

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

	Six months ended	
	31 December	
	2006	2005
	HK\$ '000	HK\$ '000
Earnings for the purpose of calculating basic earnings per share	<u>303,012</u>	<u>276,550</u>
Effect of conversion rights and options attached to convertible bonds of a subsidiary	(4,188)	–
Effect of dilutive potential ordinary shares in respect of convertible bonds of the Company	<u>–</u>	<u>(786)</u>
	<u>(4,188)</u>	<u>(786)</u>
Earnings for the purpose of calculating diluted earnings per share	<u>298,824</u>	<u>275,764</u>
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	<u>1,334,376</u>	<u>1,256,215</u>
Effect of dilutive potential ordinary shares:		
Warrants	30,368	–
Convertible bonds	<u>–</u>	<u>38,854</u>
	<u>30,368</u>	<u>38,854</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>1,364,744</u>	<u>1,295,069</u>

The conversion of the outstanding convertible bonds of a subsidiary of the Company did not have dilution effect on earnings per share for the period ended 31 December 2005 since the conversion would result in an increase in profit per share.

7. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$ '000</i>
Net book value at 1 July 2006	67,397
Currency realignment	2,661
Additions	3,899
Disposals	(94)
Depreciation	(6,287)
	<hr/>
Net book value at 31 December 2006	<u>67,576</u>

At 31 December 2006, certain land and buildings of the Group with a net book value of HK\$12,688,000 (30 June 2006: HK\$11,865,000) 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\$10,000 for the period.

8. TRADE AND OTHER RECEIVABLES

	31 December 2006 <i>HK\$ '000</i>	30 June 2006 <i>HK\$ '000</i>
Trade receivables	258,968	451,857
Guaranteed distribution receivables	234,524	187,091
Other receivables	454,813	256,096
	<hr/>	<hr/>
	<u>948,305</u>	<u>895,044</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. The aged analysis of trade receivables at the reporting date is as follows:

	31 December 2006 <i>HK\$ '000</i>	30 June 2006 <i>HK\$ '000</i>
0-60 days	189,064	375,820
61-90 days	67,744	68,214
91-180 days	1,439	5,996
> 180 days	721	1,827
	<hr/>	<hr/>
	<u>258,968</u>	<u>451,857</u>

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9. TRADE AND OTHER PAYABLES

As at 31 December 2006, the balance of trade and other payables included trade payables of HK\$13,038,000 (30 June 2006: HK\$11,272,000). The aged analysis of trade payables at the balance sheet date is as follows:

	31 December 2006 HK\$'000	30 June 2006 HK\$'000
0-60 days	8,193	7,615
61-90 days	491	630
91-180 days	–	268
> 180 days	4,354	2,759
	<u>13,038</u>	<u>11,272</u>

10. CONVERTIBLE BONDS

	31 December 2006 HK\$'000	30 June 2006 HK\$'000
1% convertible bonds – unlisted	<u>77,830</u>	<u>18,219</u>

On 23 August 2006, Kantone Holdings Limited, a 52.3% owned subsidiary of the Company issued additional tranche 1 convertible bonds of US\$8,000,000 due 2008 (the “Additional Tranche 1 Convertible Bonds”). The Additional Tranche 1 Convertible Bonds bear interest at the rate of 1% per annum and interest will be payable semi-annually in arrears in June and December each year. During the period, there was no conversion in convertible bonds. At 31 December 2006, principal value of US\$8,100,000 of the convertible bonds remained outstanding.

In the opinion of the directors of the Company, the fair value change of the convertible bonds during the period was immaterial and accordingly, no adjustment had been made to the financial statements.

11. CAPITAL COMMITMENTS

	31 December 2006 HK\$'000	30 June 2006 HK\$'000
Capital expenditure in respect of property, plant and equipment, and development costs for systems and networks:		
Contracted for but not provided in the financial statements	–	32
Authorised but not contracted for	<u>380,250</u>	<u>488,750</u>
	<u>380,250</u>	<u>488,782</u>

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

At the balance sheet date, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and machinery and equipment which fall due as follows:

	31 December 2006		30 June 2006	
	Land and buildings HK\$'000	Machinery and equipment HK\$'000	Land and buildings HK\$'000	Machinery and equipment HK\$'000
Within one year	2,662	3,058	3,135	2,517
In the second to fourth year inclusive	<u>4,550</u>	<u>3,014</u>	<u>5,239</u>	<u>3,559</u>
	<u>7,212</u>	<u>6,072</u>	<u>8,374</u>	<u>6,076</u>

Leases are negotiated for an average term of one to four years and rentals are fixed for an average term of one to four years.

The Group as lessor

At the balance sheet date, the Group contracted with tenants in respect of leasing of plant and machinery and telecommunications networks which fall due as follows:

	31 December 2006 HK\$'000	30 June 2006 HK\$'000
Within one year	18,922	10,874
In the second to fifth year inclusive	21,156	20,756
Over five years	<u>1,195</u>	<u>1,803</u>
	<u>41,273</u>	<u>33,433</u>

INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

The directors have resolved to pay an interim dividend of HK2.4 cents per share for the six months ended 31 December 2006 (2005: HK2.2 cents per share) to shareholders whose names appear on the register of members of the Company on 20 April 2007. Total interim dividend payment amounts to HK\$33.4 million, an increase of 18.8 percent as compared with HK\$28.1 million of last corresponding period.

The interim dividend will be satisfied by allotment of new shares of the Company, 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 is subject to the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the Scrip Dividend Scheme together with the form of election will be sent to the shareholders of the Company as soon as practicable.

It is expected that certificates for shares to be issued under the Scrip Dividend Scheme and dividend warrants will be dispatched to those entitled thereto on or before 15 June 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 16 April 2007 to 20 April 2007, both days inclusive, during which period no transfer of shares of the Company will be effected. In order to qualify for the above interim dividend and the Scrip Dividend Scheme, all transfers of shares accompanied by the relevant share certificates, and in the case of warrant holders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription moneys, must be lodged with the Company’s Branch Share Registrars in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong no later than 4:00 p.m. on 13 April 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Earnings of the Group's core business remained on target, and growth was reported in both revenue and profit for the first half of the financial year 2006/2007 under review. The key drivers were a stable economy in China which achieved GDP growth of 10.7% in 2006; demand in the global markets for the Group's customised products and solutions; and returns from the Group's strategic investment portfolio. The Group's profitability was partially offset by impairment provisions in relation to some of the Group's investments.

Financial Results

The Group achieved a turnover of HK\$1,567 million for the six months ended 31 December 2006 (the "Period"), an increase of 7.4 percent as compared with HK\$1,459 million for the six months ended 31 December 2005 (the "Previous Period"). Gross profit increased by 12.5 percent to HK\$533 million, and gross margin improved to 34 percent from 32.5 percent of Previous Period. The slower growth in turnover reflected the Group's continuing effort to reduce reliance on general systems products where margins continued to come under pressure, and a corresponding increase in focus on services and software solutions with the associated higher margins.

Profit attributable to equity holders was HK\$303 million, an increase of 9.6 percent compared with HK\$277 million for the Previous Period. Earnings per share for the Period was HK22.7 cents (2005: HK22.0 cents), an increase of 3.2 percent. EBITDA (earnings before interest, taxation, depreciation and amortisation) rose by 17.9 percent to HK\$630 million.

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Included in the profit before taxation of HK\$393 million were impairment losses of HK\$61.3 million in relation to the Group's various investments. As a general principle of prudence in anticipation of the increasing volatilities in the global financial markets and operating environments, the Group decided to provide for impairment where the income producing assets may be affected in the coming years. This is in accordance with the latest accounting standards requiring annual review of the carrying value of relevant corporate assets as compared with the present value of estimated future cashflows.

Excluding the non-cash item of impairment losses of HK\$61.3 million, the Group's earnings per share would be HK26.4 cents.

The continuing demand for the Group's customised solutions in wireless technologies, communications software, and Internet-related products and services was a result of ongoing investments in systems and networks which allowed us to significantly improve customer-service metrics while driving industry-leading productivity. The Group continued to maintain a clear competitive edge in providing customised communications solutions for niche markets.

Total operating expenses went up largely in line with the increase in turnover and as a result of a general increase in staff costs on the back of a strengthening economy. Distribution costs came down to HK\$24 million (2005: HK\$43 million), after continued efforts in expanding clientele in previous years. General and administrative expenses were HK\$112 million, up 18 percent (2005: HK\$95 million), of which depreciation and amortisation expenses went up 25 percent to HK\$230 million (2005: HK\$184 million), attributable to the roll-out of several new projects.

Finance costs for the Period increased to HK\$7 million (2005: HK\$4.4 million), attributable to higher utilisation of bank borrowings for working capital and increase in investments.

Review of Operations

China market maintained its momentum in line with the country's thriving economy, generating an overall increase in capital expenditure by our customers to improve the quality of their networks in order to meet increasing demand. The macro-economic tightening measures appeared to have only a slight dampening effect on an overheated economy, as such measures were specific to certain sectors, which did not include basic infrastructure projects such as the telecommunications and IT sector. For the six-month period, China sales accounted for HK\$1,164 million of the Group's turnover (2005: HK\$1,081 million).

The Group also reported stable business in Europe, where healthcare and fire services continued to be core sectors for the Group's wireless messaging solutions. A suite of new products and integrated wireless solutions was being developed to leverage the Group's existing customer base in key vertical sectors such as healthcare, hospitality, and retail. Turnover attributable to the operations in Europe was HK\$264 million (2005: HK\$252 million).

Meanwhile, the Group's strategic investment in In-Car Telematics solutions, anti-radiation products to counteract radio emission from mobile phones, and ID card project with related IT security opportunities progressed as planned. These investments are subject to review periodically to determine if progress was in line with original plan and if anticipated benefits could be achieved. Where required, impairment provisions at an appropriate level would be made.

Kantone Holdings Limited (Kantone)

Kantone continued to sustain growth. It recorded a turnover of HK\$702 million, an increase of 6.7 percent over the Previous Period. Profit attributable to equity holders was HK\$188 million, representing an improvement of 18.9 percent compared with HK\$158 million of Previous Period.

Sales in China was in line with the country's economic growth. With China's continued economic prosperity, demand for Kantone's customised solutions and products was maintained. Within Europe, UK sales registered steady growth. The reduced spending by the NHS (National Health Service) due to budget rebalancing was compensated by strong demand in the emergency services sector, where Kantone remained well-positioned to secure new long-term contracts, especially in the arena of Fire Services and Marine Coast Guard Security.

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Under e-Gaming and Online Entertainment, Kantone continued to expand its portfolio of investments in betting software solutions and various gaming and entertainment websites. Its paperless lottery project in China progressed as planned, with new regions signed up and continued enhancement of integrated gaming technology solutions. Betting turnover via Kantone's e-platform steadily increased, and the use of SMS on mobile-phones and websites for paperless betting was gaining popularity among young people and the more well-off white-collar workers.

e-Lottery in China is still at its developing stage, but if it were to follow the trend of the high adoption rate of other technologies such as mobile phones and Internet usage, e-lottery will have a significant impact on China's overall lottery market, and in turn, will impact positively on Kantone's results in the future.

Directors are fully aware that globally lottery and gaming is one of the fastest growth sectors, and it commands the level of risk commensurate with the higher return. Kantone's endeavours in this area of business are expected to bear fruit after the initial period of investment.

DIGITALHONGKONG.COM (Digital HK)

The profit contribution of Digital HK was HK\$620,000, compared with HK\$543,000 for the Previous Period. Digital HK has adapted well in the highly competitive marketplace and amidst the rapid technological changes in the IT industry. It continued to maintain momentum in its pursuit of business in relation to e-commerce solutions, and had benefited from a steadily growing customer base resulting from increased awareness of its products and services.

OUTLOOK

As the Group enters into its 20th year of establishment and 15th anniversary as a listed company, the directors take pride in the Group's track record of solid performance and expanding global reach over the years, and vouch to stand up to the many challenges in the days and years ahead to bring maximum advantage to our shareholders. In particular, 2007 will be a year of continued investment in order to bring long-term growth to the Group.

As a global player, we are constantly on guard of the different developments in the various markets where we operate. In the more mature markets such as Europe, sales of telecom equipment has shown signs of slowing growth, whereas Internet, IT services and software solutions remain the key drivers to stable growth. In emerging markets such as China, customers are getting more sophisticated and there is growing need to introduce more high value-added services and enriched innovative solutions to sustain margins and maintain growth. Across the board, it is encouraging to see continuing robust growth in the Internet and related services sector, where new technologies continue to open up new business opportunities. In particular, China increased its spending by 50% last year on Internet services such as online games, e-commerce, and instant messaging services, making it the world's second largest Internet market behind the United States.

In line with market trends, the Group's business strategy going forward will be driven by a focus on high margin and high growth sectors to pursue margin improvement. Such strategy naturally entails continued innovations and bigger investments, especially in China which continues to present enormous opportunities, in order to expand our portfolio of compelling solutions and offerings.

Against this challenging and more complex environment, the directors will continue to exercise prudence in managing investment risks while capturing market opportunities that produce what is in the best interest for the Group and its shareholders in the long term.

LIQUIDITY AND FINANCIAL RESOURCES

Financial Position and Gearing

As at 31 December 2006, the Group had HK\$667 million made up of deposits, bank balances and cash. Current assets were approximately HK\$1,655 million (30 June 2006: HK\$1,845 million) and current liabilities amounted to approximately HK\$303 million (30 June 2006: HK\$268 million). With net current assets of HK\$1,352 million, the Group had maintained a high level of financial liquidity. The gearing ratio at the period-end, which calculation was based on the Group's total borrowings of HK\$225 million (30 June 2006: HK\$178 million) and equity attributable to equity holders of the Company of HK\$5,647 million (30 June 2006: HK\$5,259 million), was 0.04 (30 June 2006: 0.03).

Total borrowings comprised bank borrowings of HK\$144.4 million (30 June 2006: HK\$155.1 million); other borrowings, which represented block discounting loans, of HK\$3.1 million (30 June 2006: HK\$5 million); and convertible bonds of HK\$77.8 million (30 June 2006: HK\$18.2 million). Finance costs for the Period amounted to HK\$7 million (Previous Period: HK\$4.4 million).

Included in the bank borrowings of HK\$144.4 million were bank loans and overdrafts of HK\$5 million (30 June 2006: HK\$1.8 million) being secured by the Group's land and buildings with a net book value of HK\$12.7 million (30 June 2006: HK\$11.9 million). These borrowings comprised debts of HK\$4.2 million repayable within one year, HK\$0.8 million repayable in the second year and the remaining balance of less than HK\$0.1 million repayable in the third year. The unsecured bank borrowings of HK\$139.4 million were repayable on demand.

The other borrowings of HK\$3.1 million were unsecured, with HK\$2.4 million repayable within one year, HK\$0.5 million repayable in the second year and the remaining balance of HK\$0.2 million repayable in the third year.

As at 31 December 2006, Kantone had outstanding convertible bonds with face value of USD8.1 million which will mature on 1 April 2008.

Treasury Policy

The Group is committed to financial prudence and continued to maintain a strong financial position with low gearing and a net cash position. The Group financed its operation and business development with a combination of internally generated resources, capital markets instruments, and banking facilities provided by its principal bankers.

All the borrowings were used by the subsidiaries of the Group, bearing interest at floating rates except for the USD convertible bonds. As all the borrowings were denominated either in local currencies or in USD, the currency risk exposure associated with the Group's borrowings was insignificant.

The Group does not engage in interest rate or foreign exchange speculative activities. It is the Group's policy to manage foreign exchange risk through matching foreign exchange income with expense, and where exposure to foreign exchange is anticipated, appropriate hedging instruments will be used.

Capital Commitments

As at 31 December 2006, the Group's capital commitments contracted for but not provided in was nil (30 June 2006: HK\$32,000) and the Group's capital commitments authorised but not contracted for was HK\$380 million (30 June 2006: HK\$489 million). These commitments were set aside for the acquisition of property, plant and equipment, and development of systems and networks.

HUMAN RESOURCES

As at 31 December 2006, the Group employed over 1,500 staff around the globe. Competitive remuneration packages that take into account business performance, market practices and competitive market conditions are offered to employees in compensation for their contribution. In addition, share options and discretionary bonuses are also granted based on the performance of the Group and that of the individual.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long Positions:

Name of director	Capacity	Number of shares	Approximate percentage of the issued share capital	Number of warrants
<i>Securities of the Company</i>				
Mr. Paul Kan Man Lok	Corporate interest	<i>Note 1</i>	28.21%	<i>Note 1</i>
<i>Securities of Kantone</i>				
Mr. Paul Kan Man Lok	Corporate interest	<i>Note 2</i>	66.99%	–
<i>Securities of Digital HK</i>				
Mr. Paul Kan Man Lok	Corporate interest	<i>Note 3</i>	79.98%	–

Notes:

- 392,579,439 shares and 54,276,861 units of warrants were held by Lawnside International Limited ("Lawnside"). Lawnside is beneficially wholly owned by Mr. Paul Kan Man Lok. As at 31 December 2006, Lawnside had interests in approximately 28.21% of the entire issued share capital of the Company. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares which were owned by the Company and Lawnside. The warrants were issued by the Company pursuant to a bonus issue effected in February 2006, all of which expired on 26 February 2007.
- 1,522,770,388 shares were held by the Company and 428,156,578 shares were held by Lawnside.
- 117,300,000 shares were held by the Company and 2,669,171 shares were held by Lawnside.

Save as disclosed above, as at 31 December 2006, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than share option schemes, at no time during the period under review was the Company, or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons (other than a director or chief executive of the Company disclosed under "Directors' Interests and Short Positions in Securities" section) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Long/short position	Capacity	Number of shares	Description of equity derivatives	Number of underlying shares	Approximate percentage of the issued share capital
Lawnside	Long	Beneficial owner	392,579,439*	-	-	28.21%
	Long	Beneficial owner	-	Warrants to subscribe for shares	54,276,861*	3.90%

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

Save as disclosed herein and disclosed under “Directors’ Interests and Short Positions in Securities” section, the Company had not been notified of any person, other than a director or chief executive of the Company, having interests or short positions in the shares or underlying shares of the Company, which was recorded in the register required to be kept under section 336 of the SFO as at 31 December 2006.

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

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

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices, as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Exchange (the “Listing Rules”) at any time during the six months ended 31 December 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all directors, result of which indicates that its directors have complied with such code of conduct throughout the period under review.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters and this interim report.

By Order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 26 March 2007

