



2008/09 Champion Technology Holdings Limited
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 over \$8 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 listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Exchange"), and DIGITALHONGKONG.COM, whose shares are listed on the Growth Enterprise Market of the Exchange. The Group also includes a UK subsidiary 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 2008

Financial Highlights

- Group turnover HK\$1,443 million
- Profit for the period HK\$166 million
- Profit attributable to equity holders HK\$108 million
- Adjusted profit (before impairment) HK\$260 million
- Adjusted EBITDA (excluding impairment) HK\$680 million
- Adjusted earnings per share (excluding impairment) HK9.21 cents
- Interim dividend of HK0.5 cents per share
- Positive financial position with net cash; no speculative derivatives or structured product transactions

The board of directors of Champion Technology Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2008 (the “Period”) with the comparative unaudited figures for the corresponding period in 2007 (the “Previous Period”) as follows:

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 31 December 2008

		Six months ended 31 December	
		2008	2007
	Notes	HK\$'000	HK\$'000
Turnover	2	1,442,978	1,839,601
Direct operating expenses		(1,074,414)	(1,184,746)
Gross profit		368,564	654,855
Other income		16,111	9,965
Distribution costs		(21,270)	(29,264)
General and administrative expenses		(99,323)	(106,869)
Impairment losses recognised for available-for-sale investments		-	(49,402)
Impairment losses recognised for deposits and prepaid development costs		(94,380)	-
Loss on deemed disposal of subsidiaries		(932)	-
Loss on fair value change of convertible bonds		-	(3,108)
Finance costs		(3,167)	(3,616)
Profit before taxation		165,603	472,561
Taxation	4	62	(222)
Profit for the period		165,665	472,339
Attributable to:			
Equity holders of the Company		107,557	368,217
Minority interests		58,108	104,122
		165,665	472,339
Earnings per share	5		
- Basic		HK5.45 cents	HK22.8 cents
- Diluted		N/A	HK22.0 cents

Condensed Consolidated Balance Sheet

At 31 December 2008

		As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	49,173	58,586
Development costs for systems and networks		2,848,616	2,743,823
Goodwill		36,795	36,795
Intangible assets		4,130	5,310
Available-for-sale investments		1,360,389	1,509,822
Interest in an associate		49,998	–
Deposits and prepaid development costs		2,858,507	2,563,105
		<u>7,207,608</u>	<u>6,917,441</u>
Current assets			
Inventories		23,626	25,464
Trade and other receivables	8	1,092,050	1,152,497
Taxation recoverable		16	29
Deposits, bank balances and cash		414,512	350,728
		<u>1,530,204</u>	<u>1,528,718</u>
Current liabilities			
Trade and other payables	9	75,877	248,931
Warranty provision		1,415	2,136
Customers' deposits		5,068	6,275
Taxation payable		1,777	2,009
Bank borrowings – amount due within one year		162,086	201,313
Other borrowings – amount due within one year		147	489
Convertible bonds	10	188,553	–
Bank overdrafts		–	27,816
		<u>434,923</u>	<u>488,969</u>
Net current assets		<u>1,095,281</u>	<u>1,039,749</u>
Total assets less current liabilities		<u>8,302,889</u>	<u>7,957,190</u>
Non-current liabilities			
Bank borrowings – amount due after one year		34,398	48,952
Other borrowings – amount due after one year		–	193
Retirement benefit obligations		62,785	92,283
Deferred taxation		149	157
		<u>97,332</u>	<u>141,585</u>
Net assets		<u>8,205,557</u>	<u>7,815,605</u>
Capital and reserves			
Share capital		197,450	197,450
Reserves		6,605,876	6,487,556
Equity attributable to equity holders of the Company		<u>6,803,326</u>	<u>6,685,006</u>
Minority interests		1,402,231	1,130,599
		<u>8,205,557</u>	<u>7,815,605</u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2008

	Attributable to equity holders of the Company										Subscription right reserve	Minority interests	Total equity
	Share capital	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Merger reserve	Translation reserve	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2007	<u>160,362</u>	<u>1,582,237</u>	<u>56,127</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>(9,100)</u>	<u>2,868,140</u>	<u>6,137,672</u>	<u>4,639</u>	<u>1,051,710</u>	<u>7,194,021</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	1,120	-	1,120	-	1,439	2,559
Profit for the period	-	-	-	-	-	-	-	-	368,217	368,217	-	104,122	472,339
Total recognised income and expense for the period	-	-	-	-	-	-	-	1,120	368,217	369,337	-	105,561	474,898
On issue of shares upon exercise of warrants	5,191	66,440	-	-	-	-	-	-	-	71,631	-	-	71,631
On exercise of subscription rights of a subsidiary	-	-	-	-	-	-	-	-	-	-	(304)	1,101	797
On conversion of convertible bonds of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	36,634	36,634
Interim dividend	-	-	40,560	-	-	-	-	-	(40,560)	-	-	-	-
	<u>5,191</u>	<u>66,440</u>	<u>40,560</u>	-	-	-	-	-	<u>(40,560)</u>	<u>71,631</u>	<u>(304)</u>	<u>37,735</u>	<u>109,062</u>
At 31 December 2007	<u>165,553</u>	<u>1,648,677</u>	<u>96,687</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>(7,980)</u>	<u>3,195,797</u>	<u>6,578,640</u>	<u>4,335</u>	<u>1,195,006</u>	<u>7,777,981</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	282	-	282	-	572	854
Loss for the period	-	-	-	-	-	-	-	(177,761)	(177,761)	(177,761)	-	(39,363)	(217,124)
Total recognised income and expense for the period	-	-	-	-	-	-	-	282	(177,761)	(177,479)	-	(38,791)	(216,270)
On issue of shares upon exercise of warrants	742	9,495	-	-	-	-	-	-	-	10,237	-	223	10,460
On exercise of subscription rights of a subsidiary	-	-	-	-	-	-	-	-	-	-	(2,006)	18,220	16,214
Subscription rights of a subsidiary lapsed	-	-	-	-	-	-	-	1,188	1,188	1,188	(2,329)	1,141	-
Dividends for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
- underprovision in prior year	-	-	1,816	-	-	-	-	-	(1,816)	-	-	-	-
- interim	-	-	800	-	-	-	-	-	(800)	-	-	-	-
- final	-	-	4,936	-	-	-	-	-	(4,936)	-	-	-	-
Dividends paid	-	-	(41,140)	-	-	-	-	-	-	(41,140)	-	-	(41,140)
On issue of shares as scrip dividend	4,355	53,808	(58,163)	-	-	-	-	-	-	-	-	-	-
Dividends paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(42,340)	(42,340)
On issue of shares as consideration for acquisition of subsidiaries	26,800	286,760	-	-	-	-	-	-	-	313,560	-	-	313,560
Deemed acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(2,860)	(2,860)
	<u>31,897</u>	<u>350,063</u>	<u>(91,751)</u>	-	-	-	-	-	<u>(6,364)</u>	<u>283,845</u>	<u>(4,335)</u>	<u>(25,616)</u>	<u>253,894</u>
At 30 June 2008	<u>197,450</u>	<u>1,998,740</u>	<u>4,936</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>(7,698)</u>	<u>3,011,672</u>	<u>6,685,006</u>	-	<u>1,130,599</u>	<u>7,815,605</u>
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	10,763	-	10,763	-	10,454	21,217
Profit for the period	-	-	-	-	-	-	-	-	107,557	107,557	-	58,108	165,665
Total recognised income and expense for the period	-	-	-	-	-	-	-	10,763	107,557	118,320	-	68,562	186,882
On acquisition of additional interests in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(208,094)	(208,094)
On issue of shares as consideration for acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	411,080	411,080
On deemed disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	84	84
Interim dividend	-	-	9,873	-	-	-	-	-	(9,873)	-	-	-	-
	-	-	9,873	-	-	-	-	-	(9,873)	-	-	203,070	203,070
At 31 December 2008	<u>197,450</u>	<u>1,998,740</u>	<u>14,809</u>	<u>50</u>	<u>1,366,003</u>	<u>105,495</u>	<u>8,358</u>	<u>3,065</u>	<u>3,109,356</u>	<u>6,803,326</u>	-	<u>1,402,231</u>	<u>8,205,557</u>

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Net cash from operating activities	546,036	690,502
Net cash used in investing activities	(404,616)	(627,352)
Net cash (used in) from financing activities	(42,178)	20,391
	<u>99,242</u>	<u>83,541</u>
Net increase in cash and cash equivalents	99,242	83,541
Cash and cash equivalents at the beginning of the period	322,912	347,482
Effect of foreign exchange rate changes	(7,642)	(110)
	<u>414,512</u>	<u>430,913</u>
Cash and cash equivalents at the end of the period	<u>414,512</u>	<u>430,913</u>
Represented by:		
Deposits, bank balances and cash	414,512	471,247
Bank overdrafts	—	(40,334)
	<u>414,512</u>	<u>430,913</u>

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 31 December 2008

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 unaudited condensed consolidated financial statements have been prepared on historical cost basis except for certain financial instruments, which are measured at fair values. The accounting policies adopted in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2008.

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards, HKASs, Amendments and Interpretations that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted the Amendments and Interpretations that are mandatory for the financial year ending 30 June 2009. The adoption of these Amendments and Interpretations has no significant impact on the Group's results and financial position.

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 (including software customisation and provision of e-lottery services) and software licensing, leasing of systems products, investments in telecommunications networks and 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 networks and projects HK\$'000	Investments in e-commerce projects HK\$'000	Strategic investments HK\$'000	Consolidated HK\$'000
Six months ended 31 December 2008							
TURNOVER							
External and total revenue	<u>930,815</u>	<u>465,561</u>	<u>10,890</u>	<u>-</u>	<u>521</u>	<u>35,191</u>	<u>1,442,978</u>
RESULTS							
Segment result	<u>36,247</u>	<u>115,897</u>	<u>3,443</u>	<u>-</u>	<u>490</u>	<u>25,572</u>	<u>181,649</u>
Interest income							4,738
Finance costs							(3,167)
Loss on deemed disposal of subsidiaries							(932)
Unallocated corporate expenses, net							<u>(16,685)</u>
Profit before taxation							<u>165,603</u>
Taxation							<u>62</u>
Profit for the period							<u>165,665</u>
Six months ended 31 December 2007							
TURNOVER							
External and total revenue	<u>864,801</u>	<u>851,150</u>	<u>5,264</u>	<u>8,963</u>	<u>5,021</u>	<u>104,402</u>	<u>1,839,601</u>
RESULTS							
Segment result	<u>110,282</u>	<u>311,118</u>	<u>2,099</u>	<u>7,702</u>	<u>4,158</u>	<u>48,758</u>	<u>484,117</u>
Interest income							6,909
Loss on fair value change of convertible bonds							(3,108)
Finance costs							(3,616)
Unallocated corporate expenses, net							<u>(11,741)</u>
Profit before taxation							<u>472,561</u>
Taxation							<u>(222)</u>
Profit for the period							<u>472,339</u>

3. Depreciation and amortisation

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in direct operating expenses	410,389	350,217
Intangible assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	5,158	6,633
	<u>416,727</u>	<u>358,030</u>
Total depreciation and amortisation	<u>416,727</u>	<u>358,030</u>

4. Taxation

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
The charge comprises:		
(Over) under provision in prior years:		
Hong Kong Profits Tax	-	222
Other jurisdictions	(62)	-
	<u>(62)</u>	<u>-</u>
	<u>(62)</u>	<u>222</u>

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits derived from Hong Kong. No provision for taxation has been made as the Group's income neither arises in, nor is 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 exempt from or not subject to taxation in any other jurisdictions.

5. Earnings per share

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

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Earnings attributable to equity holders of the Company for the purpose of calculating basic earnings per share	<u>107,557</u>	368,217
Effect of subscription rights attached to convertible bonds of a subsidiary		<u>(1,038)</u>
Earnings for the purpose of calculating diluted earnings per share		<u>367,179</u>
	Number of shares ('000)	
Weighted average number of shares for the purpose of calculating basic earnings per share	<u>1,974,500</u>	1,617,305
Effect of dilutive potential ordinary shares: Warrants		<u>51,382</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share		<u>1,668,687</u>

No diluted earnings per share is presented in respect of warrants and convertible bond in 2008 as their respective exercise price and conversion price were higher than the average market price of shares of the Company.

The calculation of diluted earnings per share in 2007 does not include certain warrants of the Company as the exercise price of these warrants was higher than the average market price of shares of the Company.

6. Dividend

	Six months ended 31 December	
	2008	2007
	HK\$'000	HK\$'000
Interim dividend proposed in scrip form equivalent to HK0.5 cents (2007: HK2.45 cents) per share, with a cash option	<u>9,873</u>	<u>40,560</u>

The interim dividend proposed is calculated on the basis of 1,974,500,267 shares in issue on 31 December 2008.

7. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2008	58,586
Currency realignment	(8,439)
Additions	4,215
Disposals	(31)
Depreciation	<u>(5,158)</u>
Net book value at 31 December 2008	<u>49,173</u>

At 31 December 2008, certain land and buildings of the Group with a net book value of HK\$9,286,000 (30 June 2008: HK\$12,636,000) 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\$23,000 for the Period.

8. Trade and others receivables

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
Trade receivables	623,496	464,447
Guaranteed distribution receivables	185,144	267,553
Advance to suppliers and other receivables	<u>283,410</u>	<u>420,497</u>
	<u>1,092,050</u>	<u>1,152,497</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:

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
0-60 days	210,433	334,465
61-90 days	223,579	120,415
91-120 days	164,788	-
121-180 days	21,398	7,536
> 180 days	<u>3,298</u>	<u>2,031</u>
	<u>623,496</u>	<u>464,447</u>

9. Trade and other payables

As at 31 December 2008, the balance of trade and other payables included trade payables of HK\$19,598,000 (30 June 2008: HK\$147,847,000). The aged analysis of trade payables at the reporting date is as follows:

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
0–60 days	16,300	9,419
61–90 days	234	28,067
91–180 days	–	107,419
> 180 days	3,064	2,942
	<u>19,598</u>	<u>147,847</u>

10. Convertible bond

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
1% convertible bond – unlisted	<u>188,553</u>	<u>–</u>

On 19 September 2008, the Company issued a convertible redeemable bond in the principal amount of HK\$188,553,096.27 (the “Convertible Bond”) to Lawnside International Limited (“Lawnside”), a shareholder of the Company. The Convertible Bond bears interest at 1% per annum payable semi-annually and will mature on 19 September 2010, or at the option of the Company, extended to 19 September 2011. No conversion of the Convertible Bond has been made by Lawnside since its issue.

11. 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 motor vehicles which fall due as follows:

	As at 31 December 2008		As at 30 June 2008	
	Land and buildings	Motor vehicles	Land and buildings	Motor vehicles
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Within one year	2,986	2,457	4,501	3,432
In the second to fourth year inclusive	4,029	3,016	4,960	3,592
	<u>7,015</u>	<u>5,473</u>	<u>9,461</u>	<u>7,024</u>

Leases are negotiated for terms of one to four years and rentals are fixed for terms 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:

	As at 31 December 2008	As at 30 June 2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within one year	717	1,960
In the second to fifth year inclusive	19,740	29,842
After five years	3,920	7,211
	<u>24,377</u>	<u>39,013</u>

Interim Dividend and Scrip Dividend Scheme

The board of directors has resolved to pay an interim dividend of HK0.5 cents per share for the Period (2007: HK2.45 cents per share) to shareholders whose names appear on the register of members of the Company on 23 April 2009. 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 despatched to those entitled thereto on or before 12 June 2009.

Closure of Register of Members

The register of members of the Company will be closed from 17 April 2009 to 23 April 2009, 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, Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 16 April 2009.

Management Discussion and Analysis

The Period saw the continued softening of the global economy, and with the unfolding of further crises in the financial and industrial sectors, business climate rapidly deteriorated towards the last quarter. The Group's business remained strong for the first three months but was hit by slowdown in project implementation for the rest of the Period amid a marked weakening of the economy.

Financial Results

For the Period, the Group recorded a twenty-two percent decline in turnover to HK\$1,443 million, as compared with HK\$1,840 million of the Previous Period. Profit for the Period was HK\$166 million, a decrease of sixty-five percent, and profit attributable to equity holders was HK\$108 million compared with HK\$368 million for the Previous Period. Earnings per share for the Period was HK5.45 cents as compared with HK22.8 cents of the Previous Period. Profit was affected by a decrease in turnover and profit margins as a result of delays in project implementation. Impairment losses of HK\$94 million recognised for deposits and prepaid development costs for systems and networks also impacted negatively on profit. Such provisions reflected prevailing market conditions and a prudent and conservative assessment of the investments and assets concerned. Excluding the impairment losses, adjusted profit for the Period was HK\$260 million, and adjusted profit attributable to equity holders was HK\$182 million, compared with HK\$522 million and HK\$411 million respectively of the Previous Period.

Operating expenses remained stable as the Group continued to review and implement measures to control costs. Distribution costs were reduced by twenty-seven percent to HK\$21 million (2007: HK\$29 million), in line with turnover. General and administrative expenses were reduced to HK\$99 million (2007: HK\$107 million). Depreciation and amortisation expenses went up 16 percent to HK\$417 million (2007: HK\$358 million) as a result of the roll-out of several projects.

Finance costs for the Period were further reduced to HK\$3.2 million compared with HK\$3.6 million for the Previous Period, as total borrowings (excluding convertible bond) were reduced from HK\$279 million to HK\$196 million.

The Group's financial position remains positive with net cash, and it does not engage in any speculative derivatives or structured product transactions.

Review of Operations

During the Period, China's economy was affected by the weakening export market and closedown of factories with large numbers of laid-off workers. However, IT and telecommunications sector, which enjoyed backing as a core industry in the Central Government's stimulus plan, had not been directly hit by the global financial crisis. The Group continued to enjoy a trusted relationship with its customers as a result of its proven track record established over the last 20 years. Key areas of focus were innovative communications and security solutions and services customised to achieve high reliability and high integrity. Our top-of-the-line products embrace a comprehensive range of integrated wireless solutions that interface with a broad range of radio networks; web-based monitoring solutions designed for remote management and security applications; and command, control and communications applications for use in mission critical assignments involving public safety, personal security and telematics control.

The Group's Homeland Security Division has been working with international partners to offer comprehensive customised solutions for integrated security systems ranging from access control, video monitoring, alarm processing, internal and external intruder detection, perimeter systems, communications network monitoring, to command control and communications. The Group's products have been exhibited at a number of trade shows and exhibitions in China, and our booths were well-attended and have drawn a lot of interest.

For the Period, China sales accounted for HK\$1,106 million of the Group's turnover as compared with HK\$1,363 million of the Previous Period, a drop of nineteen percent as a result of global slowdown in business activities across the board.

In Europe, the Group's sales and marketing activities in emergency services, fire control projects, as well as the NHS (National Health Services) projects in the United Kingdom ("UK") continued. Several new contracts for the supply of Lone Worker and Personal Security solutions to hospitals in the UK have been secured. With the exception of Germany, which had seen a minor slowdown, the global financial crunch did not yet have a significant impact on the Group's sales performance in Europe for the Period. However continued delay in government contracts as a result of key vendors falling behind in systems delivery and installation have led to the European operation falling behind budget. Turnover of European operations registered a decline of twenty percent to HK\$242 million, as compared with HK\$304 million of the Previous Period, partly attributable to the softening of the Euro and the Pound Sterling.

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

Kantone Holdings Limited (Kantone)

Kantone recorded a sixteen percent drop in turnover to HK\$663 million, compared with HK\$787 million in the Previous Period. Profit for the Period was HK\$120 million, as compared with HK\$213 million of the Previous Period, a decrease of forty-four percent. Excluding impairment losses in relation to investments and development costs of systems and networks, adjusted profit was HK\$161 million, and adjusted profit attributable to equity holders was HK\$163 million, compared with HK\$230 million and HK\$231 million respectively of the Previous Period.

Sales in China was in line with the country's economic growth. With Central Government's support of the IT and telecommunications sector, sales and marketing activities for Kantone's customised solutions and products continued. In Europe, UK sales registered steady growth in the initial period, but continued delay in some of the government contracts have negatively impacted Kantone's sales performance and profitability. Notwithstanding the difficulties, Kantone remained well-positioned to secure new long-term contracts, especially in the arena of fire services, personal security and marine coast guard security.

For e-gaming and online entertainment, Kantone continued to invest in the enhancement of integrated gaming technology solutions, online payment channels and sales network.

DIGITALHONGKONG.COM (Digital HK)

Digital HK recorded a loss of HK\$669,000 on turnover of HK\$1,828,000 for the Period, compared with a loss of HK\$240,000 on turnover of HK\$2,459,000 in the Previous Period. Its performance was affected by customers delaying or scaling back expenditure on IT amid increasing market uncertainties. Digital HK will continue to seek suitable investment opportunities to diversify its revenue streams in order to enhance shareholders' value.

Outlook

Against unprecedented economic and market uncertainties that are likely to persist for a period, the outlook for the remainder of the financial year is difficult to predict. The Group will remain vigilant and adopt a conservative approach in rolling out its business plans. Cost reduction and control measures will continue to be exercised.

Management remains optimistic about China's economy in the long term, especially with the stimulus package announced by the Central Government which provides strong support to infrastructure projects such as the IT and telecommunications sector. With a positive financial position and niche technologies, hopefully the Group will take in stride the ongoing global economic crisis, and to pursue new investments with a promising future as and when opportunities present themselves.

Liquidity and Financial Resources

Financial Position and Gearing

The Group's financial position remained positive with a low gearing and a net cash position.

As at 31 December 2008, the Group had HK\$415 million made up of deposits, bank balances and cash. Current assets were approximately HK\$1,530 million (30 June 2008: HK\$1,529 million) and current liabilities amounted to approximately HK\$435 million (30 June 2008: HK\$489 million). With net current assets of HK\$1,095 million (30 June 2008: HK\$1,040 million), the Group had maintained a high level of financial liquidity. The gearing ratio of the Group, which calculation was based on the Group's total borrowings of HK\$385 million (30 June 2008: HK\$279 million) and equity attributable to equity holders of the Company of HK\$6,803 million (30 June 2008: HK\$6,685 million), was 0.06 (30 June 2008: 0.04).

Total borrowings comprised bank borrowings of HK\$196 million (30 June 2008: HK\$250 million), other borrowings, which represented block discounting loans, of HK\$0.1 million (30 June 2008: HK\$0.7 million), and convertible redeemable bond in the principal amount of HK\$189 million (30 June 2008: Nil). Finance costs for the Period amounted to HK\$3.2 million (Previous Period: HK\$3.6 million).

The bank borrowings comprised bank loans of HK\$162 million (30 June 2008: HK\$201 million) repayable within one year, HK\$4 million (30 June 2008: HK\$5 million) repayable in the second year and HK\$30 million (30 June 2008: HK\$44 million) repayable in the third to fifth year. The mortgage loan of HK\$0.4 million outstanding as at 30 June 2008 was repaid during the Period. Bank loans of HK\$37.5 million and the mortgage loan were secured by the Group's land and buildings with a carrying value of HK\$9.3 million (30 June 2008: HK\$12.6 million).

The other borrowings of HK\$0.1 million (30 June 2008: HK\$0.7 million) were unsecured and repayable within one year (30 June 2008: HK\$0.5 million repayable within one year and the remaining balance repayable in the second year).

Treasury Policy

The Group is committed to financial prudence and maintains a positive financial position with low gearing and a net cash position. The Group finances its operation and business development by a combination of internally generated resources, capital markets instruments and banking facilities.

Other than the convertible bond, all the borrowings were used by the subsidiaries of the Company bearing interest at floating rate. As all the Group's borrowings were denominated in their local currencies, the currency risk exposure associated with them was insignificant.

The Group does not engage in any speculative derivatives or structured product transactions, 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 2008, the Group's capital commitments authorised but not contracted for was HK\$281 million (30 June 2008: HK\$363 million). These commitments are set aside for the acquisition of property, plant and equipment, and development of systems and networks.

Human Resources and Remuneration Policy

As at 31 December 2008, the Group employed about 1,300 staff around the globe. Remuneration is determined with reference to market terms and the performance, qualifications and experience of the individual employee. Remuneration includes monthly salaries, performance-linked bonuses, retirement benefits under the Mandatory Provident Fund Scheme, and other benefits such as medical scheme.

Directors' Interests and Short Positions in Securities

As at 31 December 2008, 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 convertible securities
<i>Securities of the Company</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 1	26.06%	Note 1
<i>Securities of Kantone</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	50.59%	Note 2
<i>Securities of Digital HK</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	-

Notes:

- 514,491,761 shares and 100,701,319 units of warrants of the Company were held by Lawnside International Limited ("Lawnside"). Lawnside is beneficially wholly owned by Mr. Paul Kan Man Lok. As at 31 December 2008, Lawnside had interests in approximately 26.06% of the entire issued share capital of the Company. Mr. Paul Kan Man Lok was deemed to have corporate interest in the securities of the Company owned by Lawnside. The warrants will expire on 16 April 2009. Lawnside also held a HK\$188,553,096.27 convertible redeemable bond of the Company carrying the right to convert the principal amount of the bond or any part thereof into shares of the Company from 19 September 2008 to 19 September 2010 or, at the option of the Company, extended to 19 September 2011 at the conversion price per share of the higher of (i) HK\$1.09; and (ii) the volume-weighted average price of shares of the Company for the 10 dealing days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.80. These warrants and the bond have not been taken into account in calculating the percentage of the issued share capital of the Company held by Lawnside.

2. 2,039,491,502 shares and 300,278,027 units of warrants of Kantone were held by the Company while 82,058,443 units of warrants of Kantone were held by Lawnside. These warrants expired on 8 January 2009 and have not been taken into account in calculating the percentage of the issued share capital of Kantone held by them.
3. 117,300,000 shares of Digital HK were held by the Company and 2,669,171 shares of Digital HK were held by Lawnside.

Save as disclosed above, 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 (as defined in Part XV of the SFO) as at 31 December 2008 as 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

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

Other than the share option schemes of the Company, Kantone and Digital HK aforementioned, 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 the acquisition of shares in, or debentures of, the Company or any other body corporate.

During the Period, no option had been granted, exercised, cancelled, lapsed or outstanding under the share option schemes of the Company, Kantone and Digital HK aforementioned.

Substantial Shareholders

As at 31 December 2008, the following persons (other than the directors or chief executive of the Company) had interests or short positions in the share capital or 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	Capacity	Number of shares	Description of derivatives	Number of underlying shares	Approximate percentage of the issued share capital
Lawnside (Note 1)	Beneficial owner	514,491,761	-	-	26.06%
	Beneficial owner	-	Warrants to subscribe for shares	100,701,319	5.10%
	Beneficial owner	-	Convertible redeemable bond convertible into shares	172,984,491 (Note 2)	8.76%

Notes:

1. See Note 1 to the “Directors’ Interests and Short Positions in Securities” Section above.
2. This is arrived at on the basis of full conversion of the convertible redeemable bond at the initial conversion price of HK\$1.09 per share.

Save as disclosed herein and disclosed above under the “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 2008.

Purchase, Sale or Redemption of the Company’s Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

Code on Corporate Governance Practices

None of the directors of the Company was aware of any information which would reasonably indicate that the Company 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 Period.

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 of the Company, result of which indicates that the directors have complied with such code of conduct throughout the Period.

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, 23 March 2009



冠軍科技集團有限公司
二零零八/零九年中期報告
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