



Kantone Holdings Limited

(Stock Code: 1059)



KANTONE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

For the six months ended 31 December 2007

Financial Highlights

- Group turnover was HK\$787 million, up 12.1%
- Profit attributable to equity holders was HK\$214 million, up 14.1%
- EBITDA was HK\$355 million, up 34.7%
- Earnings per share was HK6.62 cents, up 2.8%
- Interim dividend of HK1.35 cents per share, with dividend yield of 4.3%; total interim dividend amounts to HK\$43.9 million, up 16%

The board of directors of Kantone Holdings Limited (the “Company” or “Kantone”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2007 with the comparative unaudited figures for the corresponding period in 2006 as follows:

Condensed Consolidated Income Statement (Unaudited)

For the six months ended 31 December 2007

		Six months ended 31 December	
		2007	2006
	Notes	HK\$'000	HK\$'000
Turnover	2	786,816	702,189
Cost of sales		(478,862)	(420,113)
Gross profit		307,954	282,076
Other income		5,803	12,612
Distribution costs		(25,244)	(21,511)
General and administrative expenses		(53,448)	(56,351)
Impairment losses recognised for available-for-sale investments		(16,526)	(25,767)
Loss on fair value change of convertible bonds		(3,108)	–
Finance costs		(2,286)	(4,547)
Profit before taxation		213,145	186,512
Taxation	4	–	(41)
Profit for the period		213,145	186,471
Attributable to:			
Equity holders of the Company		214,013	187,623
Minority interests		(868)	(1,152)
		213,145	186,471
Dividends	5	43,896	37,859
Earnings per share	6		
– Basic		HK6.62 cents	HK6.44 cents
– Diluted		HK6.56 cents	HK6.25 cents

Condensed Consolidated Balance Sheet (Unaudited)

At 31 December 2007

	Notes	As at 31 December 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	7	43,018	44,481
Development costs for systems and networks		977,098	840,746
Goodwill		36,795	36,795
Intangible assets		6,490	7,670
Available-for-sale investments		267,128	250,636
Deposits		681,720	696,540
		<u>2,012,249</u>	<u>1,876,868</u>
Current assets			
Inventories		33,625	29,204
Trade and other receivables	8	448,894	398,751
Amount due from ultimate holding company		–	7
Taxation recoverable		55	127
Deposits, bank balances and cash		127,694	100,099
		<u>610,268</u>	<u>528,188</u>
Current liabilities			
Trade and other payables	9	68,210	78,391
Warranty provision		1,995	1,860
Taxation payable		22	20
Bank borrowings – amount due within one year		60,646	50,408
Other borrowings – amount due within one year		376	1,861
Convertible bonds	10	1,606	35,880
		<u>132,855</u>	<u>168,420</u>
Net current assets		<u>477,413</u>	<u>359,768</u>
Total assets less current liabilities		<u>2,489,662</u>	<u>2,236,636</u>
Non-current liabilities			
Bank borrowings – amount due after one year		–	373
Other borrowings – amount due after one year		466	716
Retirement benefit obligations		94,653	95,985
Deferred taxation		155	149
		<u>95,274</u>	<u>97,223</u>
Net assets		<u>2,394,388</u>	<u>2,139,413</u>
Capital and reserves			
Share capital		325,152	319,993
Reserves		2,054,857	1,804,531
Equity attributable to equity holders of the Company		2,380,009	2,124,524
Minority interests		14,379	14,889
		<u>2,394,388</u>	<u>2,139,413</u>



Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2007

	Attributable to equity holders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Dividend reserve HK\$'000	Subscription right reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
At 1 July 2006	291,225	294,581	58,245	1,850	(8,046)	1,030,695	1,668,550	16,281	1,684,831
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	(7,300)	-	(7,300)	195	(7,105)
Profit for the period	-	-	-	-	-	187,623	187,623	(1,152)	186,471
Total recognised income and expense for the period	-	-	-	-	(7,300)	187,623	180,323	(957)	179,366
On issue of subscription rights	-	-	-	2,789	-	-	2,789	-	2,789
Interim dividend for the period	-	-	37,859	-	-	(37,859)	-	-	-
	-	-	37,859	2,789	-	(37,859)	2,789	-	2,789
At 31 December 2006	291,225	294,581	96,104	4,639	(15,346)	1,180,459	1,851,662	15,324	1,866,986
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	(1,533)	-	(1,533)	177	(1,356)
Profit for the period	-	-	-	-	-	224,395	224,395	(612)	223,783
Total recognised income and expense for the period	-	-	-	-	(1,533)	224,395	222,862	(435)	222,427
On conversion of convertible bonds	11,574	63,235	-	-	-	-	74,809	-	74,809
Dividends for the period	-	-	-	-	-	-	-	-	-
-interim	-	-	2,166	-	-	(2,166)	-	-	-
-final	-	-	79,998	-	-	(79,998)	-	-	-
Dividends paid	-	-	(24,809)	-	-	-	(24,809)	-	(24,809)
Issue of shares as scrip dividend	17,194	56,267	(73,461)	-	-	-	-	-	-
	28,768	119,502	(16,106)	-	-	(82,164)	50,000	-	50,000
At 30 June 2007	319,993	414,083	79,998	4,639	(16,879)	1,322,690	2,124,524	14,889	2,139,413
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	2,199	-	2,199	358	2,557
Profit for the period	-	-	-	-	-	214,013	214,013	(868)	213,145
Total recognised income and expense for the period	-	-	-	-	2,199	214,013	216,212	(510)	215,702
On conversion of convertible bonds	4,659	32,692	-	-	-	-	37,351	-	37,351
On exercise of subscription rights	500	1,726	-	(304)	-	-	1,922	-	1,922
Interim dividend	-	-	43,896	-	-	(43,896)	-	-	-
	5,159	34,418	43,896	(304)	-	(43,896)	39,273	-	39,273
At 31 December 2007	325,152	448,501	123,894	4,335	(14,680)	1,492,807	2,380,009	14,379	2,394,388



Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 31 December 2007

	Six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Net cash from operating activities	306,027	308,727
Net cash used in investing activities	(286,797)	(459,309)
Net cash from financing activities	88	55,343
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Net increase (decrease) in cash and cash equivalents	19,318	(95,239)
Cash and cash equivalents at the beginning of the period	100,099	251,947
Effect of foreign exchange rate changes	(110)	473
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Cash and cash equivalents at the end of the period	119,307	157,181
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Represented by:		
Deposits, bank balances and cash	127,694	198,905
Bank overdrafts	(8,387)	(41,724)
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	119,307	157,181
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Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 31 December 2007

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 2007.

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards, HKASs and Interpretations (hereinafter collectively referred to as "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 2008. The adoption of these new/revised HKFRSs 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 five 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 e-commerce projects and 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 e-commerce projects HK\$'000	Strategic investments HK\$'000	Consolidated HK\$'000
Six months ended 31 December 2007						
TURNOVER						
External and total revenue	379,277	389,743	5,264	1,664	10,868	786,816
RESULTS						
Segment result	52,380	170,163	2,099	1,595	(6,110)	220,127
Interest income						4,600
Loss on fair value change of convertible bonds						(3,108)
Finance costs						(2,286)
Unallocated corporate expenses, net						(6,188)
Profit before taxation						213,145
Taxation						-
Profit for the period						213,145
Six months ended 31 December 2006						
TURNOVER						
External and total revenue	445,110	242,034	5,384	2,700	6,961	702,189
RESULTS						
Segment result	72,679	132,368	714	2,555	(17,797)	190,519
Interest income						5,554
Finance costs						(4,547)
Unallocated corporate expenses, net						(5,014)
Profit before taxation						186,512
Taxation						(41)
Profit for the period						186,471



3. Depreciation and amortisation

	Six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
Amortisation on:		
Development costs for systems and networks, included in cost of sales	132,892	65,952
Intangibles assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	5,431	5,223
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Total depreciation and amortisation	139,503	72,355
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4. Taxation

	Six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	-	-
Taxation in other jurisdictions	-	41
	<hr/>	<hr/>
	-	41
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Hong Kong Profits Tax is calculated at 17.5% (2006: 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 exempt or not subject to taxation in any other jurisdictions.



5. Dividends

Dividends represents interim dividend of HK1.35 cents (2006: HK1.3 cents) per share, in scrip form with a cash option.

The interim dividend is calculated on the basis of 3,251,522,036 shares in issue on 31 December 2007.

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	
	2007	2006
	HK\$'000	HK\$'000
Earnings attributable to equity holders of the Company for the purpose of calculating basic earnings per share	214,013	187,623
Effect of dilutive potential ordinary shares:		
Interest of convertible bonds	–	224
Issue costs of convertible bonds	–	2,130
	<hr/>	<hr/>
Earnings for the purpose of calculating diluted earnings per share	214,013	189,977
	<hr/> <hr/>	<hr/> <hr/>
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	3,231,063	2,912,253
Effect of dilutive potential ordinary shares:		
Conversion rights and subscription rights attached to convertible bonds (Note)	31,121	129,123
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Weighted average number of shares for the purpose of calculating diluted earnings per share	3,262,184	3,041,376
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Note:

The computation of diluted earnings per share in 2007 does not assume (1) the exercise of the Company's warrants as the exercise price of those warrants is higher than the average market price for the period which the warrants were outstanding; and (2) the conversion of convertible bonds as the effect is anti-dilutive.



7. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2007	44,481
Currency realignment	(123)
Additions	4,195
Disposals	(104)
Depreciation	(5,431)
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Net book value at 31 December 2007	43,018
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At 31 December 2007, certain land and buildings of the Group with a net book value of HK\$12,686,000 (30 June 2007: HK\$12,915,000) were pledged to a bank as security for banking facilities granted to the Group. Gain on disposal of property, plant and equipment of the Group amounted to HK\$33,000 for the period.

8. Trade and other receivables

	As at 31 December 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
Trade receivables	260,020	225,053
Guaranteed distribution receivables	52,053	43,863
Other receivables	136,821	129,835
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	448,894	398,751
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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 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
0-60 days	204,241	169,073
61-90 days	46,481	50,136
91-180 days	4,210	1,137
> 180 days	5,088	4,707
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	260,020	225,053
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9. Trade and other payables

As at 31 December 2007, the balance of trade and other payables included trade payables of HK\$26,764,000 (30 June 2007: HK\$14,188,000). The aged analysis of trade payables at the reporting date is as follows:

	As at 31 December 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
0-60 days	10,767	9,874
61-90 days	11,223	642
91-180 days	1,223	1,061
> 180 days	3,551	2,611
	26,764	14,188

10. Convertible bonds

	As at 31 December 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
1% convertible bonds – unlisted	1,606	35,880

As at 1 July 2007, US\$2,400,000 of the principal amount of the convertible bonds of the Company due 2008 (the "Convertible Bonds") were outstanding. The Convertible Bonds bear interest at the rate of 1% per annum, payable semi-annually in arrears in June and December each year. During the period, US\$2,300,000 of the principal amount of the Convertible Bonds were converted into 46,590,000 shares of HK\$0.1 each of the Company at a price HK\$0.3844 per share. As at 31 December 2007, US\$100,000 of the principal amount of the Convertible Bonds remained outstanding.



11. Operating lease arrangements

The Group as lessee

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

	As at 31 December 2007		As at 30 June 2007	
	Land and buildings HK\$'000 (Unaudited)	Machinery and equipment HK\$'000 (Unaudited)	Land and buildings HK\$'000 (Audited)	Machinery and equipment HK\$'000 (Audited)
Within one year	254	3,313	365	3,226
In the second to fourth year inclusive	3,483	4,533	2,578	4,699
	<u>3,737</u>	<u>7,846</u>	<u>2,943</u>	<u>7,925</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 2007 HK\$'000 (Unaudited)	As at 30 June 2007 HK\$'000 (Audited)
Within one year	3,840	13,902
In the second to fifth year inclusive	31,254	26,721
After five years	5,649	1,601
	<u>40,743</u>	<u>42,224</u>



Interim Dividend and Scrip Dividend Scheme

The board of directors have resolved to pay an interim dividend of HK1.35 cents per share for the six months ended 31 December 2007 (2006: HK1.3 cents per share) to shareholders whose names appear on the register of members of the Company on 18 April 2008. Total interim dividend amounts to HK\$43.9 million, an increase of 16 percent as compared with HK\$37.9 million for the 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 despatched to those entitled thereto on or before 13 June 2008.

Closure of Register of Members

The register of members of the Company will be closed from 14 April 2008 to 18 April 2008, 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 11 April 2008.



Management Discussion and Analysis

Financial Results

The Group achieved a turnover of HK\$787 million for the six months ended 31 December 2007 (the "Period"), an increase of 12.1 percent as compared with HK\$702 million for the six months ended 31 December 2006 (the "Previous Period"). The growth in turnover was a result of the Group's continued investment in product development and systems advancement, thereby enhancing the value-added features of its products and solutions. The Group also made a conscious effort to reduce reliance on general systems products where margins continue to come under pressure, while increasing its focus on services and software solutions which carry higher margins.

Gross profit increased by 9.2 percent to HK\$308 million, and gross margin for the Period remained stable at 39 percent compared with 40 percent of Previous Period.

Profit attributable to equity holders was HK\$214 million, an increase of 14.1 percent compared with HK\$188 million for the Previous Period. Earnings per share for the Period was HK6.62 cents, an increase of 2.8 percent. The improved performance was attributable to the roll-out of new products and launch of new projects during the Period.

The Group's EBITDA (earnings before interest, taxation, depreciation and amortisation) rose by 34.7 percent to HK\$355 million. Excluding certain one-off non-cash items totalling HK\$16.5 million for impairment losses recognised for available-for-sale investment and HK\$3.1 million in respect of loss on fair value change of convertible bonds, adjusted EBITDA was HK\$375 million, an increase of 29.5 percent. For 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.

Total operating expenses remained quite stable. Distribution costs went up by 17.4 percent to HK\$25.2 million in line with the increase in turnover, while general and administrative expenses reduced slightly to HK\$53.4 million compared with HK\$56.4 million of Previous Period. Depreciation and amortisation expenses, included in the cost of sales and general and administrative expenses, were HK\$140 million, up 92.8 percent (2006: HK\$72.4 million), attributable to the continued roll-out of several new projects.



Finance costs for the Period were HK\$2.3 million, which was substantially less than HK\$4.5 million in the Previous Period in the absence of issue of convertible bonds.

Review of Operations

The Group continued to benefit from China's economic growth, where sales maintained its momentum. The scope of possibilities for IT applications has also expanded. The success of China's aerospace projects, the adoption of higher speed and more spectrum-efficient telecom technologies and standards, as well as upcoming international events to be held in China such as the 2008 Olympics and the 2010 World Expo were drivers to the growth in investment in the telecoms and related sectors. In response to new and increasing demand for a broad range of IT and communications solutions across a number of different public and business sectors, Kantone has expanded its product portfolio to embrace a comprehensive range of integrated wireless solutions and web-based monitoring systems designed for remote management and security applications. For the Period, China sales accounted for HK\$490 million of the Group's turnover, up 11.6 percent (2006: HK\$439 million).

In Europe, the Group reported satisfactory growth in business, thanks to strong performance in emergency services and fire control projects, as well as the relaxation of spending constraints on NHS (National Health Services) projects. Several long-term contracts related to mobilising the communications systems for the fire brigades in England and Scotland have been secured. Some delays in systems delivery and project installation were encountered as a result of certain vendors not meeting the customers' requirements. This situation may lead to revised schedules which may impact on the Division's original estimates for the full year. Management is closely monitoring the situation and will adopt appropriate measures as and when required.

The Group's new Lone Worker and Personal Security solutions reported strong growth in light of the changes in the UK and European legislation concerning corporate liability for personal injuries which raised the level of responsibility for the protection of employees in the workplace. These new personal security solutions, based on wireless mesh technology and launched in 2007 under the brandname Ekotek, won a prestigious innovation award in Stockholm during the Period. Key distributors in Europe, North America, and Australia have been signed up and sales growth was encouraging.



Kantone has also launched a new range of IP DECT (Internet Protocol-based Digital Enhanced Cordless Telecommunications) mobility solutions aiming at the VoIP PABX (Voice over Internet Protocol-based digital Private Automatic Branch Exchange) market. These products provide superior voice quality stemming from the Group's ability to overlay messaging and alarm monitoring applications. Deliveries and installation of these solutions have been completed for the Irish Coast Guard and New South Wales Fire Service in Australia.

Turnover attributable to the operations in Europe rose 12.2 percent to HK\$220 million (2006: HK\$196 million), partly due to the strengthening of the British Sterling and Euro.

The Group continued to make major investments to enable it to stay at the forefront of integrated platforms and solutions development. Such investments are subject to review periodically to determine if progress was in line with the original plan and if anticipated benefits could be achieved. Where appropriate, impairment provisions would be made.

e-Gaming and Online Entertainment

Building on its expertise in integrated IT solutions and telephone data management, Kantone continued to invest in betting software and CRM (customer relationship management) solutions. Its paperless lottery project in China continued to make progress with new regions signed up and continued enhancement of integrated gaming technology solutions and online payment channels. In particular, the popularity of text messaging and the increasingly user-friendly interfaces on mobile-phones has gained much traction among young people and the more well-off white-collar workers. In the arena of telephone-based betting market in China, Kantone commands a leadership position, complete with its own IP (intellectual property) over a robust e-lottery platform with secure micropayment systems connected to banks. Such comprehensive platform facilitated one-stop-shop automated betting transactions for multiple lottery games.

The recent provisions on clampdown of lottery sales on the Internet are designed to stop fraud and malpractices of illegal websites. Such tightening measures are expected to strengthen the Internet industry, and as such, they work to the benefit of Kantone as the Group is the legitimate provider of online solutions and consultancy to the Mainland authorities, in particular the regional Welfare Lottery Issue Centres, in respect of telephone-based betting. The ban on unregulated Internet lottery sales is expected to pave the way for new lottery legislation which hopefully will help to consolidate the Group's position and expand our market share in e-lottery.



Directors are fully aware that globally lottery and gaming is one of the fastest growth sectors, and it commands the level of risk and investment commensurate with the higher return. Barring unforeseen circumstances and drastic changes in the global economic situation, Kantone's endeavours in this area of business may expect to bear fruit after the initial period of investment.

Outlook

Recent global stock market volatility and tighter credit conditions arising from the worsening US sub-prime lending situation could pose potential risks to the global economy. In Mainland China, macro-economic measures targeted at reining in the overheating economy are expected to continue. On the other hand, as China enjoys a degree of insulation and resilience due to stronger domestic demand and economic resurgence, its growth momentum is likely to be maintained, although at a lower but hopefully more wholesome rate. Against this very challenging and complex environment, the directors will continue to exercise prudence in managing investment risks and take a critical review of the Group's investment portfolio, making provisions and write-downs where deemed appropriate in response to changes in market conditions.

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. Kantone will also strive to strengthen its position in the niche markets of providing wireless integrated solutions tailored to customers' specialised requirements, as well as enhancing its value-added services to help customers achieve significant savings. In consolidating its leadership position in providing mission critical communications systems and solutions to the emergency and fire services, as well as the public safety sector, Kantone will focus on developing core platform technologies and customised personal security solutions.

Liquidity and Financial Resources

Financial Position and Gearing

As at 31 December 2007, the Group had HK\$128 million (30 June 2007: HK\$100 million) liquid assets made up of deposits, bank balances and cash. Current assets were approximately HK\$610 million (30 June 2007: HK\$528 million) and current liabilities amounted to approximately HK\$133 million (30 June 2007: HK\$168 million). With net current assets of HK\$477 million (30 June 2007: HK\$360 million), the Group maintained a comfortable level of liquidity. The gearing ratio of the Group, defined as the Group's total borrowings to equity attributable to equity holders of the Company, was 0.03 (30 June 2007: 0.04).



Total borrowings comprised bank borrowings of HK\$60.6 million (30 June 2007: HK\$50.8 million); other borrowings, which represented block discounting loans, of HK\$0.8 million (30 June 2007: HK\$2.6 million); and convertible bonds of HK\$1.6 million (30 June 2007: HK\$35.9 million). Finance costs for the Period amounted to HK\$2.3 million (Previous Period: HK\$4.5 million).

The total bank borrowings comprised bank loans of HK\$59.9 million (30 June 2007: HK\$49.6 million), which were repayable on demand; and mortgage loan of HK\$0.7 million (30 June 2007: HK\$1.2 million), which were repayable within one year. The mortgage loan was secured by the Group's land and buildings with a net book value of HK\$12.7 million (30 June 2007: HK\$12.9 million). The other borrowings of HK\$0.8 million were unsecured, with HK\$0.4 million repayable within one year, HK\$0.3 million repayable in the second year and the remaining balance repayable in the third year.

As at 31 December 2007, the Company had outstanding convertible bonds with face value of US\$100,000 which will mature on 1 April 2008.

Treasury Policy

The Group is committed to financial prudence and continues to maintain a strong 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 provided by its bankers.

Except for the convertible bonds, all other borrowings were used by the subsidiaries of the Group, bearing interests at floating rates. As all the borrowings were denominated either in local currencies or in US dollars, 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 2007, the Group's capital commitments authorised but not contracted for was HK\$137 million (30 June 2007: HK\$101 million). The Group has set aside sufficient internally generated funds for the acquisition of property, plant and equipment, and development of systems and networks.



Human Resources and Remuneration Policy

As at 31 December 2007, the Group employed over 800 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, share options, 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 2007, 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	Note 1	64.31%	Note 1
<i>Securities of Champion Technology Holdings Limited ("Champion", the holding company of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	29.82%	Note 2
<i>Securities of DIGITALHONGKONG.COM ("Digital HK", a fellow subsidiary of the Company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	-



Notes:

1. 1,642,268,111 shares and 300,278,027 units of warrants of the Company were held by Champion while 448,790,629 shares and 82,058,443 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 2007, Lawnside had interests in approximately 29.82% of the entire issued share capital of Champion. Mr. Paul Kan Man Lok was deemed to have corporate interest in the securities of the Company owned by Champion and Lawnside. The warrants were issued by the Company pursuant to a bonus issue effected in December 2007, all of which will expire on 8 January 2009. The warrants have not been taken into account in calculating the percentage of the issued share capital of the Company held by them.
2. 493,759,494 shares and 60,478,025 units of warrants of Champion were held by Lawnside. The warrants were issued by Champion pursuant to a bonus issue effected in March 2007, all of which expired on 7 March 2008. The warrants have not been taken into account in calculating the percentage of the issued share capital of Champion held by it.
3. 117,300,000 shares of Digital HK were held by Champion and 2,669,171 shares of Digital HK were held by Lawnside.

Save as disclosed above, as at 31 December 2007, 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 the share option scheme of the Company, at no time during the period under review was the Company, any of its holding company, fellow subsidiaries or 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 2007, 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	Capacity	Number of shares	Description of derivatives	Number of underlying shares	Approximate percentage of issued share capital
Champion (Note 1)	Beneficial owner	1,642,268,111	-	-	50.51%
	Beneficial owner	-	Warrants to subscribe for shares	300,278,027	9.23%
Lawnside (Note 1)	Beneficial owner	448,790,629	-	-	13.80%
	Beneficial owner	-	Warrants to subscribe for shares	82,058,443	2.52%
Shanghai Industrial Investment (Holdings) Company Limited (Note 2)	Corporate Interest	478,560,000	-	-	14.72%
	Corporate Interest	-	Warrants to subscribe for shares	85,893,245	2.64%

Notes:

1. See Note 1 in the “Directors’ Interests and Short Positions in Securities” section.
2. Shanghai Industrial Investment (Holdings) Company Limited had interest in 564,453,245 shares and underlying shares of the Company through control over 100% interest in the shares of various companies. These companies include SIIC Treasury (B.V.I.) Ltd., which had direct interest in 346,671,854 shares and underlying shares of the Company; SIIC CM Development Funds Ltd., which had direct interest in 138,818,523 shares and underlying shares of the Company; SIIC Asset Management Co. Ltd., which had direct interest in 73,277,160 shares and underlying shares of the Company; and Billion More, which had direct interest in 5,685,708 shares and underlying shares of the Company.

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 2007.



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 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 2007 save that since the decease of Mr Ho Yiu Ming on 9 December 2007, the Company did not have an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise and one member of the audit committee being an independent non-executive director with the aforesaid qualifications or expertise until the appointment of Ms Miranda Ho Mo Han as an independent non-executive director on 28 January 2008.

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, 18 March 2008



