



Champion Technology Holdings Limited

(Stock Code: 0092)

“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.”

Paul KAN Man Lok, Chairman

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 \$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 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 2007

Financial Highlights

- Group turnover was HK\$1,840 million, up 17.4%
- Profit attributable to equity holders was HK\$368 million, up 21.5%
- EBITDA was HK\$826 million, up 31.1%
- Earnings per share was HK22.8 cents
- Interim dividend of HK2.45 cents per share, with dividend yield of 4%; total interim dividend amounts to HK\$40.6 million, up 22%

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 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

	Notes	Six months ended 31 December	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	1,839,601	1,567,004
Direct operating expenses		(1,184,746)	(1,033,909)
Gross profit		654,855	533,095
Other income		9,965	36,925
Distribution costs		(29,264)	(24,281)
General and administrative expenses		(106,869)	(111,944)
Impairment losses recognised for available-for-sale investments		(49,402)	(61,308)
Gain on disposal of development costs for systems and networks		–	23,140
Discount on acquisition of subsidiaries		–	4,402
Loss on fair value change of convertible bonds		(3,108)	–
Finance costs		(3,616)	(7,002)
Profit before taxation		472,561	393,027
Taxation	4	(222)	(41)
Profit for the period		472,339	392,986
Attributable to:			
Equity holders of the Company		368,217	303,012
Minority interests		104,122	89,974
		472,339	392,986
Dividends	5	40,560	33,401
Earnings per share	6		
– Basic		HK22.8 cents	HK22.7 cents
– Diluted		HK22.0 cents	HK21.9 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	65,660	67,184
Development costs for systems and networks		2,403,183	2,137,057
Goodwill		36,795	36,795
Intangible assets		6,490	7,670
Available-for-sale investments		1,740,894	1,786,794
Deposits		2,050,620	2,041,260
		6,303,642	6,076,760
Current assets			
Inventories		34,868	30,449
Trade and other receivables	8	1,390,212	1,202,327
Taxation recoverable		55	349
Deposits, bank balances and cash		471,247	347,482
		1,896,382	1,580,607
Current liabilities			
Trade and other payables	9	93,724	87,291
Warranty provision		1,995	1,860
Customers' deposits		7,451	9,803
Taxation payable		22	20
Bank borrowings – amount due within one year		221,595	229,408
Other borrowings – amount due within one year		376	1,861
Convertible bonds	10	1,606	35,880
		326,769	366,123
Net current assets		1,569,613	1,214,484
Total assets less current liabilities		7,873,255	7,291,244
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
		95,274	97,223
Net assets		7,777,981	7,194,021
Capital and reserves			
Share capital		165,553	160,362
Reserves		6,413,087	5,977,310
Equity attributable to equity holders of the Company		6,578,640	6,137,672
Subscription right reserve of a listed subsidiary		4,335	4,639
Minority interests		1,195,006	1,051,710
		7,777,981	7,194,021



Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2007

	Attributable to equity holders of the Company									Subscription			Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Dividend reserve HK\$'000	Capital redemption reserve HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	Merger reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total	right reserve HK\$'000	Minority interests HK\$'000	
At 1 July 2006	131,420	1,270,577	43,369	50	1,366,003	105,495	8,358	(4,520)	2,338,008	5,258,760	1,850	833,032	6,093,642
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 recognised income and expense for the period	-	-	-	-	-	-	-	(3,780)	303,012	299,232	-	86,455	385,687
Issue of shares upon exercise of warrants	7,752	81,397	-	-	-	-	-	-	-	89,149	-	-	89,149
On issue of subscription rights of a subsidiary	-	-	-	-	-	-	-	-	-	-	2,789	-	2,789
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(17,524)	(17,524)
Interim dividend for the period	-	-	33,401	-	-	-	-	-	(33,401)	-	-	-	-
	7,752	81,397	33,401	-	-	-	-	-	(33,401)	89,149	2,789	(17,524)	74,414
At 31 December 2006	139,172	1,351,974	76,770	50	1,366,003	105,495	8,358	(8,300)	2,607,619	5,647,141	4,639	901,963	6,553,743
Exchange difference arising on translation of operations outside Hong Kong recognised directly in equity	-	-	-	-	-	-	-	(800)	-	(800)	-	(361)	(1,161)
Profit for the period	-	-	-	-	-	-	-	-	323,806	323,806	-	106,106	429,912
Total recognised income and expense for the period	-	-	-	-	-	-	-	(800)	323,806	323,006	-	105,745	428,751
Issue of shares upon exercise of warrants	17,392	183,899	-	-	-	-	-	-	-	201,291	-	-	201,291
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	75,274	75,274
Dividends for the period	-	-	-	-	-	-	-	-	-	-	-	-	-
- underprovision in prior year	-	-	2,556	-	-	-	-	-	(2,556)	-	-	-	-
- interim	-	-	4,602	-	-	-	-	-	(4,602)	-	-	-	-
- final	-	-	56,127	-	-	-	-	-	(56,127)	-	-	-	-
Dividends paid	-	-	(33,766)	-	-	-	-	-	-	(33,766)	-	-	(33,766)
Issue of shares as scrip dividend	3,798	46,364	(50,162)	-	-	-	-	-	-	-	-	-	-
Dividend paid to minority interests	-	-	-	-	-	-	-	-	-	-	-	(24,809)	(24,809)
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(6,463)	(6,463)
	21,190	230,263	(20,643)	-	-	-	-	(63,285)	167,525	-	-	44,002	211,527
At 30 June 2007	160,362	1,582,237	56,127	50	1,366,003	105,495	8,358	(9,100)	2,868,140	6,137,672	4,639	1,051,710	7,194,021
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	474,896
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)	-	-	-	-
	5,191	66,440	40,560	-	-	-	-	-	(40,560)	71,631	(304)	37,735	109,062
At 31 December 2007	165,553	1,648,677	96,687	50	1,366,003	105,495	8,358	(7,980)	3,195,797	6,578,640	4,335	1,195,006	7,777,981

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	690,502	777,256
Net cash used in investing activities	(627,352)	(1,160,243)
Net cash from financing activities	20,391	86,037
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	83,541	(296,950)
Cash and cash equivalents at the beginning of the period	347,482	921,264
Effect of foreign exchange rate changes	(110)	473
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	430,913	624,787
	<hr/> <hr/>	<hr/> <hr/>
Represented by:		
Deposits, bank balances and cash	471,247	666,511
Bank overdrafts	(40,334)	(41,724)
	<hr/>	<hr/>
	430,913	624,787
	<hr/> <hr/>	<hr/> <hr/>

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 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 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 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							(11,741)
Profit before taxation							<u>472,561</u>
Taxation							(222)
Profit for the period							<u><u>472,339</u></u>
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
Finance costs							(7,002)
Unallocated corporate expenses, net							(8,002)
Profit before taxation							<u>393,027</u>
Taxation							(41)
Profit for the period							<u><u>392,986</u></u>

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 direct operating expenses	350,217	222,539
Intangible assets, included in general and administrative expenses	1,180	1,180
Depreciation of property, plant and equipment, included in general and administrative expenses	6,633	6,287
Total depreciation and amortisation	<u>358,030</u>	<u>230,006</u>

4. Taxation

	Six months ended 31 December	
	2007	2006
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	–	–
– underprovision in prior years	222	–
Taxation in other jurisdictions	–	41
	<u>222</u>	<u>41</u>

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 HK2.45 cents (2006: HK2.4 cents) per share, in scrip form with a cash option.

The interim dividend is calculated on the basis of 1,655,530,549 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	368,217	303,012
Effect of conversion rights and subscription rights attached to convertible bonds of a subsidiary	(1,038)	(4,188)
	<hr/>	<hr/>
Earnings for the purpose of calculating diluted earnings per share	367,179	298,824
	<hr/> <hr/>	<hr/> <hr/>
	Number of shares	
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	1,617,305	1,334,376
Effect of dilutive potential ordinary shares:		
Warrants	51,382	30,368
	<hr/>	<hr/>
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,668,687	1,364,744
	<hr/> <hr/>	<hr/> <hr/>

The computation of diluted earnings per share in 2007 does not assume the conversion of convertible bonds issued by a subsidiary as the effect is anti-dilutive.



7. Property, plant and equipment

	Amount HK\$'000
Net book value at 1 July 2007	67,184
Currency realignment	(123)
Additions	5,336
Disposals	(104)
Depreciation	(6,633)
	<hr/>
Net book value at 31 December 2007	65,660
	<hr/> <hr/>

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	613,714	448,683
Guaranteed distribution receivables	288,735	261,050
Other receivables	487,763	492,594
	<hr/>	<hr/>
	1,390,212	1,202,327
	<hr/> <hr/>	<hr/> <hr/>

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	488,680	319,667
61-90 days	114,401	122,709
91-180 days	5,402	1,149
> 180 days	5,231	5,158
	<hr/>	<hr/>
	613,714	448,683
	<hr/> <hr/>	<hr/> <hr/>



9. Trade and other payables

As at 31 December 2007, the balance of trade and other payables included trade payables of HK\$45,561,000 (30 June 2007: HK\$14,446,000). 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	29,499	10,080
61-90 days	11,224	644
91-180 days	1,223	1,111
> 180 days	3,615	2,611
	45,561	14,446

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 Kantone Holdings Limited (“Kantone”), a 50.5% owned subsidiary 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 Kantone 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	2,939	3,313	3,233	3,226
In the second to fourth year inclusive	4,261	4,533	4,336	4,699
	7,200	7,846	7,569	7,925

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
	40,743	42,224



Interim Dividend and Scrip Dividend Scheme

The board of directors have resolved to pay an interim dividend of HK2.45 cents per share for the six months ended 31 December 2007 (2006: HK2.4 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\$40.6 million, an increase of 22 percent as compared with HK\$33.4 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\$1,840 million for the six months ended 31 December 2007 (the "Period"), an increase of 17.4 percent as compared with HK\$1,567 million for the six months ended 31 December 2006 (the "Previous Period"). Gross profit increased by 22.8 percent to HK\$655 million, and gross margin further improved to 36 percent from 34 percent of Previous Period. The results 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\$368 million, an increase of 21.5 percent compared with HK\$303 million for the Previous Period. The increase is mainly attributable to the improvement in contribution from the Group's subsidiaries and from the increase in turnover as new products and new projects were rolled out. Earnings per share for the Period was HK22.8 cents (2006: HK22.7 cents).

The Group's EBITDA (earnings before interest, taxation, depreciation and amortisation) rose by 31.1 percent to HK\$826 million. Excluding certain one-off non-cash items totalling HK\$49.4 million for impairment losses recognised for available-for-sale investments and HK\$3.1 million in respect of loss on fair value change of convertible bonds, adjusted EBITDA was HK\$879 million, an increase of 27.1 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.

The continuing demand for the Group's customised solutions in wireless technologies, communications software, homeland security packages, and Internet-related products and services was a result of our 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 increased to HK\$29.3 million (2006: HK\$24.3 million), while depreciation and amortisation expenses, included in direct operating expenses and general and administrative expenses, went up 55.7 percent to HK\$358 million (2006: HK\$230 million), attributable to the roll-out of several new projects. General and administrative expenses showed a modest reduction to HK\$107 million (2006: HK\$112 million) as a result of continued efforts in controlling expenditures.

Finance costs for the Period were reduced to HK\$3.6 million, which was substantially less than HK\$7 million in the Previous Period in the absence of issue of convertible bonds.

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 Group continued to enjoy preferred supplier status among its customers with an established relationship and proven track record as a reliable technology partner. 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; as well as command, control and communications applications for use in mission critical assignments involving public safety, personal security and telematics control.

The Group's new division, Champion Homeland Security, has been working with international vendors to offer comprehensive customised solutions for integrated security systems. Products and systems have been exhibited at a number of trade shows and exhibitions in China.

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 relating to the telecommunications and IT sector. For the Period, China sales accounted for HK\$1,363 million of the Group's turnover, up 17 percent (2006: HK\$1,164 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. Turnover attributable to the operations in Europe was HK\$304 million, up 15 percent (2006: HK\$264 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\$787 million, an increase of 12.1 percent over the Previous Period. Profit attributable to equity holders was HK\$214 million, representing an improvement of 14.1 percent compared with HK\$188 million for the 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. Meanwhile, the scope of possibilities for IT applications has also expanded. Within Europe, UK sales registered steady growth. The resumption of spending by the NHS (National Health Service) has helped to offset some delays encountered in the emergency services sector. 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 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 it 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 Kantone's position and expand its 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.

DIGITALHONGKONG.COM (Digital HK)

Digital HK recorded a loss of HK\$240,000 on turnover of HK\$2,459,000, compared with a profit of HK\$620,000 on turnover of HK\$3,150,000 for the Previous Period. The lower turnover reflected Digital HK's positioning as a premium solutions provider and focus on high-margin customised solutions in e-commerce amid intense competition and price pressures in the IT sector. Digital HK will continue to seek suitable investment opportunities to diversify its revenue streams in order to enhance shareholders' value.



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.

With Mainland China accounting for a significant portion of our operations, we expect to continue to benefit from China's continued robust economic growth and influence in the global arena. 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. In terms of business focus, customised communications solutions and integrated security services for applications in multiple markets and sectors will be our direction for growth and expansion. That will include a comprehensive portfolio that embraces different technologies and wide-ranging applications, covering biometric identification, smartcard solutions, fraud detection systems, and mobile-based applications using video and audio compression technologies in telematics control, public safety, and personal security. Meanwhile, as information technology is widely adopted today across industries and businesses, as well as our daily lives, new and emerging opportunities, especially in fast growing China, may arise where we can leverage our IT expertise to engage selectively in new projects with attractive returns and good prospects.

Liquidity and Financial Resources

Financial Position and Gearing

As at 31 December 2007, the Group had HK\$471 million made up of deposits, bank balances and cash. Current assets were approximately HK\$1,896 million (30 June 2007: HK\$1,581 million) and current liabilities amounted to approximately HK\$327 million (30 June 2007: HK\$366 million). With net current assets of HK\$1,570 million (30 June 2007: HK\$1,214 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\$224 million (30 June 2007: HK\$268 million) and equity attributable to equity holders of the Company of HK\$6,579 million (30 June 2007: HK\$6,138 million), was 0.03 (30 June 2007: 0.04).



Total borrowings comprised bank borrowings of HK\$222 million (30 June 2007: HK\$229.8 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\$3.6 million (Previous Period: HK\$7 million).

The total bank borrowings comprised bank loans of HK\$221 million (30 June 2007: HK\$228.6 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, Kantone 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.

All borrowings were used by the subsidiaries of the Group, bearing interests at floating rates except for the convertible bonds. 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 contracted for but not provided in the financial statements was nil (30 June 2007: nil) and the Group's capital commitments authorised but not contracted for was HK\$453 million (30 June 2007: HK\$344 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 2007, the Group employed over 1,500 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	29.82%	Note 1
<i>Securities of Kantone</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	64.31%	Note 2
<i>Securities of Digital HK</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	79.98%	-



Notes:

1. 493,759,494 shares and 60,478,025 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 the Company. Mr. Paul Kan Man Lok was deemed to have corporate interest in the securities of the Company owned by Lawnside. The warrants were issued by the Company 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 the Company held by it.
2. 1,642,268,111 shares and 300,278,027 units of warrants of Kantone were held by the Company while 448,790,629 shares and 82,058,443 units of warrants of Kantone were held by Lawnside. The warrants were issued by Kantone 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 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, 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, 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 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
Lawnside (Note 1)	Beneficial owner	493,759,494	-	-	29.82%
	Beneficial owner	-	Warrants to subscribe for shares	60,478,025	3.65%
Cheah Cheng Hye (Note 2)	Founder of a discretionary trust	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
Cheah Capital Management Limited (Note 2)	Corporate interest	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
Cheah Company Limited (Note 2)	Corporate interest	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
Hang Seng Bank Trustee International Limited (Note 2)	Trustee	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
To Hau Yin (Note 2)	Spouse	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
Value Partners Group Limited (Note 2)	Corporate interest	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%
Value Partners Limited (Note 2)	Investment manager	111,252,445	-	-	6.72%
			Physically settled derivatives	21,451,285	1.30%



Name	Capacity	Number of shares	Description of derivatives	Number of underlying shares	Approximate percentage of issued share capital
Allianz SE (Note 3)	Corporate interest	86,522,000	-	-	5.23%
Dresdner Bank Aktiengesellschaft (Note 3)	Corporate interest	86,522,000	-	-	5.23%
Veer Palthe Voute NV (Note 3)	Investment manager	86,522,000	-	-	5.23%

Notes:

1. See Note 1 in the “Directors’ Interests and Short Positions in Securities” section.
2. These shares were held by Value Partners Limited as investment manager, Value Partners Limited is wholly owned by Value Partners Group Limited. Mr. Cheah Cheng Hye is a founder of a trust, the trustee of which namely, Hang Seng Bank Trustee International Limited, holds 100% interest in Cheah Company Limited, which holds 100% interest in Cheah Capital Management Limited, which in turn holds 35.65% interest in Value Partners Group Limited. Ms. To Hau Yin is the spouse of Mr. Cheah Cheng Hye.
3. Veer Palthe Voute NV held these shares as investment manager. It is wholly owned by Dresdner Bank Aktiengesellschaft, in which Allianz Finanzbeteiligungs GmbH has 81.1% interest. Allianz Finanzbeteiligungs GmbH is wholly owned by Allianz SE.

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.



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



